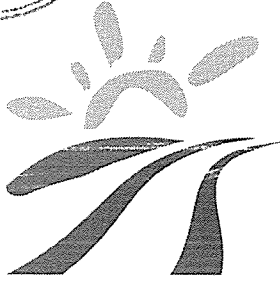




Appendix 5  
to the Consolidated Financial Statements  
of the Group



Koleje  
Mazowieckie

## MANAGEMENT REPORT

on activities of the “Koleje Mazowieckie - KM” sp. z o.o. Group  
for the year 2011

WARSAW, JUNE 2012

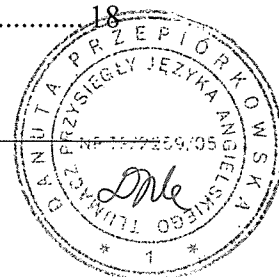


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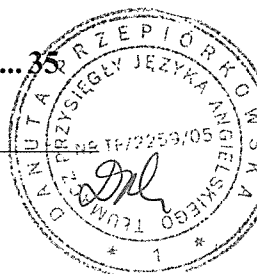


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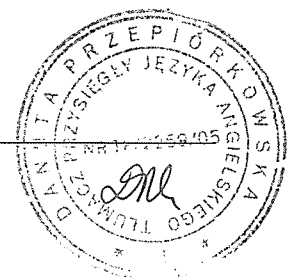


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## Executive Summary

1. In the year 2011 "Koleje Mazowieckie - KM" sp. z o.o., the Parent Company, continued operations commenced on 1 January 2005 involving the provision of mass public transport services.
2. A total of 54 420 839 passengers, or by 2.14% more than in 2010, used the service of "Koleje Mazowieckie - KM" sp. o.o. (KM) in 2011.
3. The operational work of KM in the year 2011 totalled 15 905 275,215 train-kilometres, which represented a growth by 4.70% (714 175.805 train-km) compared to the year 2010.
4. KM provided a public service involving regional passenger rail service commissioned by the Local Government of Mazowieckie Province. Compensation on that account amounted to PLN 211 555 721.70.
5. While implementing its 2010/2011 train timetable, KM performed transport services with 281 rail vehicles, including 11 locomotives.
6. The scope of KM's Quality Management System was extended in compliance with the ISO 9001:2008 standard to include the Passenger Service Unit and the Conductor Crew Unit, as confirmed through Certificate No. 9176.KOLE awarded in the course of a supervision audit performed by the Italian certifying entity IMQ S.A., Representative Office in Poland.
7. In 2011 the "Koleje Mazowieckie - KM" sp. z o.o. Group received EU grants for rolling stock procurement and modernisation in the amount of PLN 66 842 603.47.
8. In the first quarter of 2011 "Koleje Mazowieckie - KM" sp. z o.o. issued bonds in an amount of EUR 100 million via its subsidiary, Koleje Mazowieckie Finance AB (publ).
9. In the year 2011 "Koleje Mazowieckie - KM" sp. z o.o. Group generated a net profit of PLN 14 481 083.67 (as per the 2011 Profit and Loss Account), a total revenue of PLN 607 787 484.97, total costs of PLN 588 230 590.30 and income tax of PLN 5 075 811.00.
10. The balance sheet total amounted to PLN 1 454 503 755.42, which represented an increase by 76.51% versus 2010.
11. In 2011 the capital assets of the "Koleje Mazowieckie - KM" sp. z o.o. Group increased by PLN 577 325 522.74.
12. Chapters 9.6 and 9.7 of this Management Report discuss the Group's performance ratios and provide an analysis of its economic standing.



13. The business performance and conditions of operation indicate that there is no risk to the going concern status of the "Koleje Mazowieckie - KM" sp. z o.o. Group.

## 1. The "Koleje Mazowieckie - KM" sp. z o.o. Group

The "Koleje Mazowieckie - KM" sp. z o.o. Group is comprised of:

- "Koleje Mazowieckie - KM" sp. z o.o., the Parent Company, with its registered office in Warsaw [Poland], ul. Lubelska 1; and
- Koleje Mazowieckie Finance AB (publ), the Subsidiary, with its registered office in the territory of the Kingdom of Sweden.

### 1.1. Basic Parent Company data

"Koleje Mazowieckie - KM" sp. z o.o. (KM), with its registered office in Warsaw, was established on 29 July 2004 by the Local Government of Mazowieckie Province and "PKP Przewozy Regionalne" sp. z o.o.

The company is registered at the District Court for the capital city of Warsaw, 13th Business Division of the National Court Register (KRS), under the No. KRS 0000222735.

It bears the company identification number REGON 015876404 and the tax identification number NIP 1132520369.

In the year 2011 share capital of KM increased from PLN 297 379 000.00 to PLN 481 909 000.00, and 100% of shares in KM are held by the Local Government of Mazowieckie Province, the sole Shareholder.

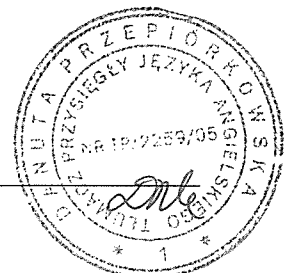
The Extraordinary Shareholders' Meeting of KM, in its Resolution No. 30/ZW/2010 of 20 October 2010, increased KM's share capital by PLN 184 530 000.00. New shares numbering 369 060, with a face value of PLN 500.00 each, were taken up in full by the Mazowieckie Province and covered fully by an in-kind contribution in the form of 37 double-decker train cars, including 11 double-decker steering carriage units and 26 double-decker inner carriage units.

On 13 January 2011, the share capital increase was registered by the District Court for the capital city of Warsaw, 13th Business Division of the National Court Register.

#### 1.1.1. Basis of the Parent Company's operations

In the year 2011 KM operated on the basis of the following documents issued by the Rail Transport Authority:

- Licence No. WPO/084/2004 for rail transport of persons;
- Licence No. WPR/085/2004 for rail transport of goods;



- Licence No. UPT/086/2004 for operation of traction vehicles;
- Safety Certificate – part A No. PL1120100023 confirming acceptance of the safety management system in the European Union in compliance with directive 2004/49/EC and relevant domestic regulations,
- Safety Certificate – part B No. PL1220100020 confirming acceptance of the Provisions adopted by the railway undertaking to meet specific requirements necessary for the safe operation on the relevant network in conformity with Directive 2004/49/EC and applicable national legislation.

In the year 2011 “Koleje Mazowieckie - KM” performed public service being regional rail passenger services commissioned with it on the basis of an public service agreement for provision of regional rail passenger services within the territory of Mazowieckie Province executed with the authorities of Mazowieckie Province.

KM’s largest contractors were PKP Polskie Linie Kolejowe S.A. and PKP Energetyka S.A. KM also generated substantial revenue through provision passage service to the municipality of Warsaw within the ZTM-KM-WKD Integrated Ticket offer.

### 1.1.2. Parent Company’s governing bodies

#### Management Board

In 2011 the KM Management Board of three-year term had the following composition:

- Artur Radwan – President of the Management Board, Chief Executive Officer (since 11 January 2010);
- Czesław Sulima – Management Board Member, Chief Operations Officer, (since 29 June 2009);
- Arkadiusz Olewnik – Management Board Member, Chief Financial Officer, (since 3 August 2009);
- Michał Panfil – Management Board Member, Chief Commercial Officer (since 30 July 2010).

The KM Management Board membership term is collegial and will continue until 29 June 2012.

The KM Management Board members exercise the management board mandate within the competences vested in them and oversee the work of the organisation’s units reporting directly to them. The competences of the individual Management Board Members are defined by *The Rules and Regulations of the Management Board of “Koleje Mazowieckie - KM” spółka z ograniczona odpowiedzialnością with its registered offices in Warsaw*, adopted by Resolution No. 05/RN/2010 of the Supervisory Board of 26 February 2010.





### **Supervisory Board**

In the year 2011 the Supervisory Board had the following composition:

- Waldemar Kuliński – Chairman of the Supervisory Board;
- Marzena Okła-Anuszevska – Supervisory Board Member;
- Piotr Zięcik – Supervisory Board Member;
- Monika Sokulska – Supervisory Board Member.

On 28 June 2011, the Ordinary Shareholders' Meeting of "Koleje Mazowieckie - KM" sp. z o.o. by Resolution No. 19/ZW/2011 appointed the Supervisory Board of "Koleje Mazowieckie - KM" sp. z o.o. of the third three-year term in the aforementioned composition.

### **Shareholders' Meeting**

Pursuant to sub-article 12.4 of the Municipal Services Management Act of 20 December 1996, the function of the Shareholders' Meeting (General Meeting) in wholly-owned entities of local governments is exercised by the executive bodies of the local governments.

In the year 2011 the sole Shareholder of KM was the Mazowieckie Province Local Government, which held all the KM shares, and thus the Mazowieckie Province Management Board constituted the KM Shareholders' Meeting.



## **1.2. Koleje Mazowieckie Finance AB (publ) – Subsidiary**

Formed by the Parent Company “Koleje Mazowieckie –KM” sp. z o.o. in 2010 and incorporated in Sweden, the Subsidiary special purpose vehicle (SPV) operating under the name Koleje Mazowieckie Finance AB continued its operations in 2011. The registered office of Koleje Mazowieckie Finance AB is in Stockholm, Sweden. Shareholders’ equity of Koleje Mazowieckie Finance AB stands at 500 000 Swedish Kronor (SEK) divided into 5 000 shares with par value of SEK100 each.

### **1.2.1. Basis of the Subsidiary’s operations**

The prevailing type of activity of the Subsidiary is the issuance and/or organisation of issuance of debt securities, directly or indirectly, including all other activities relating to this primary type of activity. The SPV executed its first bond issue in January 2011.



## 1.2.2. Subsidiary's governing bodies

### Management Board

The Management Board of Koleje Mazowieckie Finance AB has the following composition:

Roman Sielecki – President of the Management Board,

Marek Dawidowicz – Management Board Member;

Ewa Oknińska – Management Board Member.

Day-to-day corporate management was entrusted to Mr Olof Waern, the Managing Director.

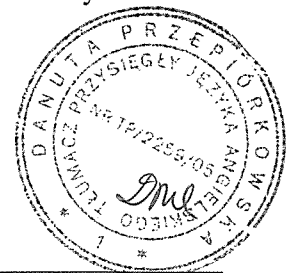
### Shareholders' Meeting

The function of the Shareholders' Meeting (General Meeting) is exercised by the Management Board of "Koleje Mazowieckie - KM" sp. z o.o.

## 1.2.3. The Subsidiary's operations in 2011

In January 2011 Koleje Mazowieckie Finance AB issued a bond in an amount of EUR 40 million; raised for the purpose of pre-financing KM's capital expenditure programme for the year 2011. That bond was repaid in full from proceeds of a 5-year EUR 100 million bond issued in the international markets by Koleje Mazowieckie Finance AB on 9 March 2011. The EUR 100 million eurobond is unsubordinated and constitutes an unconditional obligation of the issuer. Also, the bond is covered by the KM's unconditional and irrevocable guarantee. The guarantee is capped at EUR 150 million and covers all the bond payments (principal and interest), which total EUR 133.75 million. Interest on the bond is paid at a fixed rate of 6.75% per year. Interest payments of EUR 6.75 million per year (EUR 33.75m in total) are made in arrears, on 9 March of each year. The first such payment was made on 9 March 2012. Pursuant to the Framework Agreement *for the performance of public service obligation, being regional public railway passenger transport services in the territory of the Mazowieckie Province*, Mazowieckie Province is required to cover the interest incurred in connection with all loans contracted by KM for capital expenditures. Therefore, the bond programme interest is included in the compensation.

The bond proceeds of EUR 100 million enabled KM to carry out the planned rolling stock investments. It should be noted that the KM bond offering met with high investor interest – exceeding the Company's expectations – and was highly oversubscribed. Through this successful international market debut KM also gained prestige and recognition among railway sector companies.



## 2. Parent Company's commercial activities

### 2.1. Train service offer

In the year 2011 "Koleje Mazowieckie - KM" sp. z o.o. provided its train service offer under the Agreement for provision of mass public transport services in the Mazowieckie Province signed with the Mazowieckie Province.

KM operated trains within the regular 2010/2011 train timetable (approved by the transport organiser) and as seasonal, occasional and special service offers. As at the effective date of the 2010/2011 train timetable, the number of planned train runs amounted to 826, which represented an increase by 125 trains over the year 2010.

#### 2.1.1. Regular service offer

KM performed the public service as per a train timetable commissioned by the transport organiser of the Mazowieckie Province, i.e. the Local Government of the Mazowieckie Province. In the year 2011 the Local Government of the Mazowieckie Province allocated an amount of PLN 211.6 million for co-financing of passenger train service.

The priority objective in organisation of the connections was to enable direct commuting to and from Warsaw in the hours of peak demand for transport service at the main regional centres of Mazovia, located within the parameters of its largest cities and population centres.

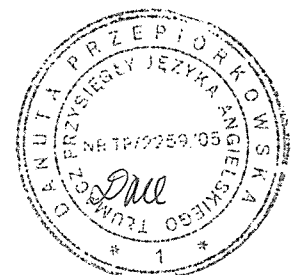
#### 2.1.2. Operation work

Under the 2010/2011 train timetable KM served 17 lines of total length of 1 323.867 km, including 1 157.470 km in the territory of the Mazowieckie Province.

The total commercial train operation work agreed with the transport organiser, as at the date of the 2010/2011 timetable effectiveness, was planned for 15 104 163.36 train-kilometres (train-km), and exceeded by 554 024.16 train-km the work planned under the 2009/2010 timetable.

#### 2.1.3. Seasonal service offer

Traditionally (since 2005), the 2010/2011 train timetable included the commercial seasonal Sunny Train ("Słoneczny"). The train was run in the summer holiday season and connected the Warszawa Zachodnia and the Gdańsk Główny stations.



#### 2.1.4. Accelerated service offer

On some of its lines KM expanded its regular service offer by adding the accelerated (or semi-fast) service, trains run in the peak hours and provide connections between Warsaw and the larger municipalities and interchange nodes in the Mazovian Region.

The 2010/2011 timetable included the following accelerated trains:

- "Wiedenka" on the Warsaw – Skierniewice – Warsaw train route;
- "Bolimek" on the Warsaw – Żyrardów – Warsaw train route;
- "Łukowianka" on the Warsaw – Łuków – Warsaw train route;
- "Mazovia" on the Warsaw – Płock – Warsaw train route;
- "Radomiak" on the Warsaw – Radom – Warsaw train route;
- "Rudka" on the Warsaw – Siedlce – Warsaw train route;
- "Kasztanka" on the Warsaw – Siedlce train route;
- "Vistula" on the Siedlce – Warsaw train route.

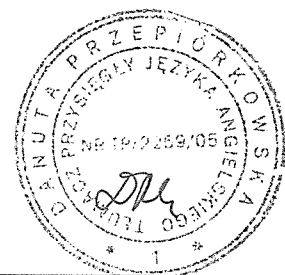
#### 2.1.5. Marketing studies

In 2011 KM conducted market research including passenger attendance studies (research and analysis) and customer satisfaction surveys. Through the research KM sought to gain greater understanding of its passengers' preferences and needs, with the aim of adjusting its comprehensive service offer, including the train timetable, to real demand.

### 2.2. Passenger service and revenue from commercial activities

In 2011 "Koleje Mazowieckie - KM" sp. z o.o. transported total of **54 420 839 passengers**, which was 2.14% more than in the year 2010. 77.25% of the KM train passengers took advantage of periodic tickets, including those issued by the Warsaw Municipal Transport Authority (ZTM), in 2011; as compared to 76.53% in 2010. The other passengers used single-journey tickets. Thus, a growing number of passengers commuting on daily basis to work, schools and universities is abandoning road transport in favour of the cheaper and faster travel by KM trains.

On account of transport of passengers in the year 2011, the KM generated revenue of **PLN 283 318 794.24** (ticket sales, specific subsidy for foregone revenue on account of acceptance of statutory ticket discounts, revenue for acceptance of the ZTM tickets and sale of travel discount rights).



## 2.3. Tariff offers

### 2.3.1. The ZTM–KM–WKD Integrated Ticket offer

In the year 2011 continued to provide the ZTM–KM–WKD Integrated Ticket offer, this on the basis of an agreement between the municipality of Warsaw represented by the Municipal Transport Authority and "Koleje Mazowieckie - KM" sp. z o.o. The settlement rate adopted for the year 2011 stood at PLN **19.20** (net) per train km. In exchange for acceptance of the aforementioned ZTM tickets on KM trains, KM received in 2011 revenue (including commission for sale of ZTM tickets) of PLN **84 991 586.05**.

### 2.3.2. KM's own offers

In the year 2011 passengers were able to use the KM train service on the basis of the following types of tickets:

- 1) Single ride: one-way, return, excursion, family, subscription, group;
- 2) Time zone based;
- 3) Time period based:
  - a) 24-hour,
  - b) 3-day,
  - c) Single line: weekly, bi-weekly, monthly, quarterly,
  - d) Zone: monthly and quarterly.

KM applies two types of discounts:

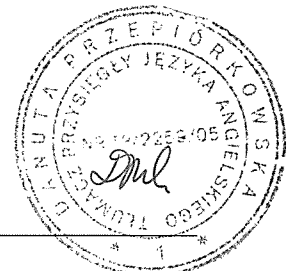
- 1) *statutory* – arising from the Act on rights to travel discounts in mass public transport of 20 June 1992 (Polish Journal of Laws of 2002 No. 175, item 1440, as amended); and
- 2) *commercial* – awarded by the Company within the context of its tariff policy.

## 2.4. Ticket sales and passenger information

### 2.4.1. Ticket sales

In the year 2011 passengers were able to buy train tickets at 121 train stations and stops located within the territory of KM's operation, or more specifically in 22 own ticket counters and in 99 agency operated ticket counters.

The passenger could also buy tickets onboard trains through portable ticket sale terminals, the KM conductor crews were equipped with.



On 27 September 2011, **Koleje Mazowieckie launched a new ticket sales channel: mobile phone enabled.** From now on travellers need not look for a ticket office, or queue for a ticket. A mobile telephone with internet access and a bank account are sufficient.

On 20 September 2011 KM executed an agreement with Mennica Polska S.A company for the sale of pre-paid mobile phone top-ups through ticket offices of KM. Based on that agreement, 33 ticket offices with installed Mennica Polska devices offer the possibility of recharging mobile phone accounts of six operators, including: TAK TAK, POP, Heyah, Play, PLUS and Telegrosik.

For the second consecutive year "Koleje Mazowieckie - KM" sp. z o.o. provided interested employers with an opportunity to purchase the rights to travel with a 33% discount for their employees; this offer applied to trains run by KM under the "Business with KM" offer.

#### **2.4.2. Passenger information**

Passengers can obtain information on the train timetable, ticket prices and tariff offers in/ from the following:

- a) ticket offices, directly;
- b) information points on stations of Warszawa Wschodnia, Siedlce, Radom;
- c) telephone information point at the Warszawa Powiśle station;
- d) train managers;
- e) the [www.mazowieckie.com.pl](http://www.mazowieckie.com.pl) website.

**Disabled citizens and persons with limited mobility** were able to obtain information on the organised train travel possibilities at a telephone line of 0-783-910-289 operating daily from 8:00 a.m. to 3:00 p.m..

#### **2.5. On-board ticket sales and control of travel documents**

In the course of the year 2011 "Koleje Mazowieckie - KM" sp. z o.o. conducted intensive activities aimed at: improving the quality of service provided by its employees serving in conductor crews and those in ticket offices; fool proofing receipts of KM; and improved security onboard trains.

Organisational changes were introduced for the purpose of improving effectiveness of controls of travel/carriage documents through:

- 1) systematic surveillance and analysis of the work of train managers;
- 2) employment of four additional train controllers;
- 3) reorganisation of the work of the ZW Renoma controllers to increase the number of inspections within the area of validity of the ZTM-KM-WKD Integrated Ticket, beyond the agglomeration zone boarder stations and the final interface stations of KM.



In the year 2011 total of **5 886** regular and *ad hoc* inspections were conducted.

Intensification of control action onboard trains led to substantial improvements in the quality and effectiveness of the work of train managers and conductors, and to increase in revenue from tickets issued onboard trains. In the year 2011 the number of summonses and tickets with additional charge was **11 741** higher than a year earlier, which represented 61% growth.

Also, the ZW Renoma controllers indentified in the course of their control operations on trains in 2011 total of 74 667 passengers travelling without a valid ticket, an increase by 11 953 persons (or 19%) as compared to the year 2010 number. In 2011 total of 105 719 passengers travelling without a valid ticket were identified, or 23 694 persons more than in the year 2010, which represented growth of 29%.

The number of tickets issued onboard trains by conductor crews also increased: **by 110 988 (or 7%)**.

In the year 2011 KM also registered growth in the revenue generated through passenger handling onboard trains by conductor crews. These receipts were **PLN 1 955 446 (or 17.2%) higher than in 2010**.

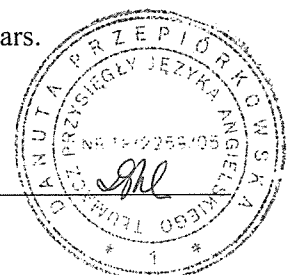
In order to prevent devastation of the rolling stock, and curtail negative behaviour of passengers and fare dodger journeys on trains of KM, the train controllers accompanied by the police and the railway security service (SOK) carried out 184 preventive actions.

### 3. Parent Company's operations

#### 3.1. Rail vehicles in use

In the year 2011 "Koleje Mazowieckie - KM" sp. z o.o. operated its service with the use of the following rail vehicles:

- 186 EN57 electric mobile units (including five EN57KM electric mobile units and 33 EN57AKM electric mobile units);
- six EN71/EN71KM electric mobile units;
- two EW60 electric mobile units;
- 10 ER75 electric mobile units;
- 16 ER76 electric mobile units;
- seven VT627 Diesel-engine railbuses;
- four VT628 Diesel-engine railbuses;
- train sets made up of 11 EU47 electric locomotives and 37 double-decker cars.





Also, as of 30 December 2011 "Koleje Mazowieckie - KM" sp. z o.o. put into operation two new SA135 series Diesel-engine railbuses.

In order to ensure traction service to its train sets made up of double-decker train cars, "Koleje Mazowieckie - KM" sp. z o.o. leased 11 EU07 electric locomotives together with traction service from PKP CARGO S.A. in 2011. Those locomotives were used for running trains made up of double-decker train cars until the end of August 2011, i.e. until the time of complete operational launch of the newly procured EU47 locomotives.

In the year 2011 KM also put into operation other rail vehicles, i.e. EN76 electric mobile units, EU47 electric locomotives and SA135 Diesel-engine railbuses. This was the result of implementation of agreements: with PESA Bydgoszcz SA for delivery of 16 electric mobile units; and with Bombardier Transportation GmbH for delivery of 11 locomotives. The SA135 Diesel-engine railbuses were put into operation at execution of a lease agreement with the Mazowieckie Province for those vehicles. In the case of all the other types of vehicles in use, there was no change as compared to their number a year earlier.

Total number of vehicles constituting the fleet used by "Koleje Mazowieckie - KM" sp. z o.o., as at 31 December 2011, stood at 281 units.

### 3.2. Operations

In the year 2011 "Koleje Mazowieckie - KM" ran **15 905 275.215** train-km, which represented **4.7%** growth in comparison with the work performed in the year 2010.

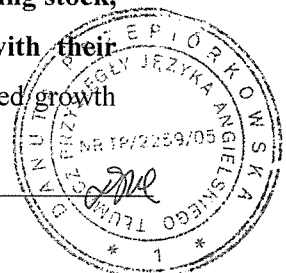
The agreement for provision of mass public transport services within the territory of the Mazowieckie Province executed with the Mazowieckie Province was the basis on which "Koleje Mazowieckie - KM" provided its transport services.

In addition, KM provided service to the capital city of Warsaw as it operated the Warszawa Gdańska – Legionowo – Legionowo Piaski line service. The transport operations delivered in providing service on that line amounted to **427 570.334** train-km.

### 3.3. Rolling stock operation

#### 3.3.1. Use of rolling stock

Experience the Company gained through the respective years of its operation translated into operating availability and capability of its rolling stock. **Operating capability of the rolling stock, in other words, the vehicles' preparedness to perform specific tasks aligned with their intended use—in this case operating service work—stood at 95.46%.** This represented growth



of 1.48% over a year earlier. In comparison to other carriers, this can be assessed as a very good result. Operational capacity of the Diesel-engine railbuses was 1.5% higher than in the year 2010 and remained at the level of approximately 72%.

### **3.3.2. Train punctuality**

In the year 2011 "Koleje Mazowieckie - KM" sp. z o.o. continued actions undertaken in previous years for the purpose of maintaining punctuality of the operated train service at above 95%. Decisive remedial action aimed at maintaining high punctuality indicator – achieved, among others, through consistent improvement of existing rolling stock and procurement of new rail vehicles while providing constant supervision over the work of the train crews serving the trains – allowed KM to achieve a very high score of **96%**.

### **3.3.3 Traction power costs in 2011 compared to consumption in 2010**

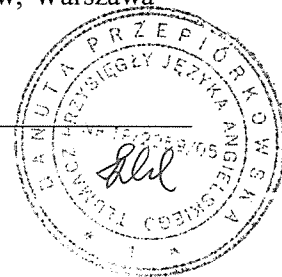
Since 1 October 2010 traction power costs are settled based on indication of power meters installed in most KM vehicles. Previously KM settled electrical energy costs on lump sum basis. As a result, KM obtained substantial power cost savings on the power it used in the year 2011 compared to the year 2010. This occurred in spite of electricity price increases and greater operational work realised in the year 2011.

Taking into account the costs of procurement and installation of the meters in vehicles, and operational costs of those meters incurred by 31 December 2011 in an amount of PLN 4 238 883.60, we can say that implementation of settlement of power usage costs on the basis of meters was economically justified and provided KM with savings in the year 2011 of PLN 9 889 441.31. Had the previous method of settlement been maintained under conditions of electricity cost increase, as of 1 February 2011, electricity distribution cost increase, as of 10 June 2011, and operational work increase in 2011, estimated traction power costs would have exceeded in total an amount of PLN 95 million.

### **3.3.4 Implementation of work safety requirements in 2011**

For the purpose of complying with the work safety requirements in specified under EU directives and their effective transposition to domestic law, KM undertook and implemented in 2011 specific investment and refurbishment projects, including, among others:

- installation of a permanent horizontal belay system on the roofs of the repair halls of the Rolling Stock Repair and Operation Units;
- adjustment of battery rooms to the minimum OHS requirements in the Sochaczew, Warszawa Grochów and Tuszcz Rolling Stock Repair and Operation Units;



- mounting of a fumes and dust extraction installation in the sub-track lathing workshop located in the Sochaczew Rolling Stock Repair and Operation Unit and on sanders in all the Rolling Stock Repair and Operation Units;
- procurement of specialized battery powered trucks for the Warszawa Ochota and Sochaczew Rolling Stock Repair and Operation Units.

Total expenditures towards implementation of the work safety requirements in the year 2011 amounted to PLN 1 699 676.00.

### 3.4. External services

In the year 2011 "Koleje Mazowieckie - KM" sp. z o.o. provided supplementary services relating, among others, with:

- trains service operation for the benefit of PKP Intercity S.A. through two traffic stations reporting to the Warszawa Grochów Rolling Stock Repair and Operation Unit;
- providing for security of trains service operation on a level crossing in Dobczyn for the benefit of PKP Polskie Linie Kolejowe S.A.;
- organisation and provision of safety measures for routes of trial and test train runs operated for Rolling Stock Repair Companies, including Mińsk Mazowiecki S.A. and Newag S.A.; for train vehicle manufacturers, including PESA Bydgoszcz, Bombardier, Stadler; and for research institutes, including the Railway Institute in Warsaw and the Rail Vehicles Institute in Poznań.

Through provision of these services, the Company generated total revenue of **PLN 1 408 000**.

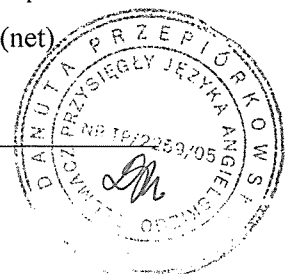
### 3.5. Rolling stock investments

In the year 2011 KM procured vehicles valued in total at PLN 548 943 205.07, including:

- |                       |                    |
|-----------------------|--------------------|
| • 6 ER75 EMUs         | PLN 90 290 000.00  |
| • 11 EU47 locomotives | PLN 142 541 592.30 |
| • 16 EN76 EMUs        | PLN 316 111 612.77 |

In the course of 2011 "Koleje Mazowieckie - KM" sp. z o.o. continued the capital expenditure programmes undertaken in the past for the purpose of improving the technical standards and aesthetics of the rolling stock it operates, and of adjusting the vehicles to the effective standards, regulations and ordinances. The undertaken projects substantially improved the travel comfort and safety.

Total rolling stock investment outlays amounted to PLN 83 997 521.14 (net), of which periodic repairs represented PLN 24 415 272.98 (net) and modernisation cost PLN 59 582 248.16 (net).



In addition, acting both in compliance with requirements of PKP PLK S.A. and in line with its own investment plans, "Koleje Mazowieckie - KM" sp. z o.o. in 2011 completed the replacement of fishplates in all pantograph rails: copper to carbon. The total net expenditure of that project amounted to PLN 927 180.00.

### 3.6. IT development

In the year 2011 KM continued actions of developing an integrated IT environment, with the aim of: facilitating work; enabling generation of internal, external, periodic and current reports; ensuring efficient communication between all the system users; and providing for flexible development of the company while optimising costs. This the Company achieved through:

- leasing of computer hardware;
- transfer of the Passenger Transport Unit Warszawa Wileńska, Commercial and Transport Control Unit and the Company Dispatching Unit in a manner that ensure continuity, and reconfiguration of computers for work within the new network infrastructure;
- preparation of network infrastructure for the needs of ticket offices, passenger information and the Collections Unit in the refurbished part of Warszawa Wschodnia Station;
- collaboration in implementation and maintenance of the network infrastructure dedicated to the mobile cash registers (600 units) and the new mobile phone enabled sales channel;
- completion of the first phase implementation of the HR-Payroll system;
- implementation of an electronic system for registration of complaints, suggestions and claims;
- launch of a Sharepoint Foundation 2010 intranet portal, which became an important source of information for the employees and a useful work tool for them;
- development of the IT Development Strategy of "Koleje Mazowieckie - KM" sp. z o.o. for the years 2012-2015.

### 3.7. Procurement

KM's procurement of the material required by the technical and commercial operations in 2011 occurred through:

- deliveries provided on the basis of orders previously placed on tender procurement basis;
- purchases from eligible suppliers in compliance with the ISO P-7.4-1 procedure of *Purchasing Management and Evaluation of Suppliers*.

The balance of materials disclosed in the Balance Sheet as at 31 December 2011 stood at PLN 10 093 930.31, and was a sum total of the following items:

- inventory PLN 8 716 194.42



- materials in external processing PLN 1 373 586.90
- deliveries not yet invoiced – PLN 2 170.01
- goods en route PLN 6 319.00

Inventory as at 31 December 2011 was valued at PLN 8 716 194.42 and was PLN 2 621 767.51 higher than as at 31 December 2010.

In the year 2011 the current reserve balance increased by PLN 1 485 050 while value of other materials rose by PLN 1 136 717.

### 3.8. Tenders

As a sector contracting authority, "Koleje Mazowieckie - KM" sp. z o. o. awarded **129** public procurement orders for a total net amount of **PLN 491 602 574.56**, on the basis of the following:

1. **Rules of procurement of supplies, services or works of "Koleje Mazowieckie - KM" sp. z o. o.**, used in respect of those of value equal to or exceeding the equivalent of EUR 14 000 expressed in PLN, and lower than the equivalent of EUR 387 000 in PLN for supplies and services, and lower than the equivalent of EUR 4 845 000 in PLN for construction works; **109** public procurement orders totalling **PLN 38 557 250.06 (net)**.
2. **Law of 29 January 2004 – Polish Public Procurement Act (Polish Journal of Laws of 2010, No. 113, item 759, as amended)**, used in respect of those of value equal to or exceeding the equivalent of EUR 387 000 expressed in PLN for supplies and services, and equal to or exceeding the equivalent of EUR 4 845 000 expressed in PLN for construction works; **20** public procurement orders totalling **PLN 453 045 324.50 (net)**.

### 4. Operations of the Parent Company's Maintenance Services Department

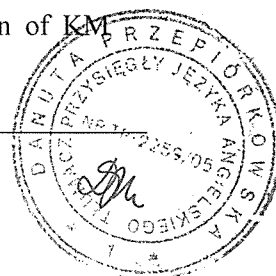
The Maintenance Services Department was responsible for cleanliness and aesthetics of the rolling stock at the parking and return stations, and for maintenance of cleanliness of buildings, office space and industrial facilities in use by "Koleje Mazowieckie - KM" sp. z o.o.

In the year 2011 total number cleaning actions increased by 12.58%.

As at the end of 2011 the number of employees of that unit stood at 223. Rolling stock cleaning was provided by 218 persons employed on contract of employment basis and 29 persons working on contract of mandate basis.

### 5. Parent Company's Information Policy and Public Relations

The Press Secretary's Office of KM was conducted information and image promotion activities involving: public relations (press conferences, mailings of press releases, participation of KM



representatives in seminars and debates), internal communication (editing of the "KM – Moja Kolej" monthly), and Corporate Social Responsibility (CSR). In addition, it ensure participation of KM in competitions and rankings promoting the Company's operations.

KM maintained contacts with representatives of the media for the purpose of sharing information. The action yielded quantifiable effects: increasing in the number of positive media messages about KM.

The Company's representatives participated in a number of important conferences, seminars and debates, e.g. such conferences as: **"European Funds in the Mazovian Region – Achievements and Challenges"**, **"Programme of Technological Development and Modernisation of Rail Transport in the Mazowieckie Province"**, **"Rolling Stock for Regional Railways – Carriers' Investment Plans and Offer of the Industry Dedicated to Regional Railways"**.

The Press Secretary's Office enlisted KM in various competitions and rankings with the aim of promoting its operations. As a result, KM was a recipient of the **Responsible Business Leader** title and of the **Teraz Polska** award for its Sunny train. Also, the Company's President of the Management Board was awarded the titles of: **Manager of the Year** and **Man of the Year – Friend of Railways**. In the most recent competition, the Press Secretary's Office also submitted the candidacy of the **Marshal of the Mazowieckie Province**, who was also awarded the title.

All these strengthened the image of KM as:

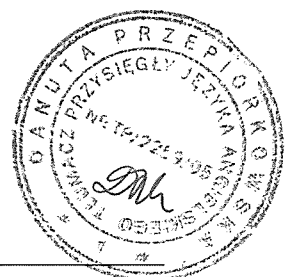
- The most modern rail passenger service provider in Poland;
- a rail company that "reaches beyond the rail track" as it engages in Corporate Social Responsibility activities;
- the standard model of local government corporate governance;
- dynamically developing rail service provider.

## 6. Parent Company's Promotion and Advertising

The work of the Promotion Unit in the year 2011 involved actions within the fields of integrated marketing communication and projects achieving the objectives of Corporate Social Responsibility.

The completed projects included, among others:

- promotion of special offers;
- promotion of the Excursion Ticket offer;
- creation and promotion of the Kolejowskaz tourist website;
- promotion of the special Sunny train;



- promotion among the inhabitants of the Warsaw metropolitan area of rail transport as a comfortable, rapid and economical means of transport through cultural, educational and entertainment events held outside Warsaw;
- participation of "Koleje Mazowieckie - KM" sp. z o.o. in trade fairs and industry exhibitions.

## 7. Other activities of the Parent Company

### 7.1. Systems operating in KM and OHS activities

#### 7.1.1. Management System

KM operates mandatory Quality Management System and Safety Management System.

With the aim of ensuring continual service quality improvement and customer satisfaction, and minimising all internal and external losses, "Koleje Mazowieckie - KM" sp. z o.o. implemented and maintains the **Quality Management System** compliant with the PN-EN ISO 9001:2009 standard for planning and performance of regional rail passenger transport.

On 17 – 18 November 2011 "Koleje Mazowieckie-KM" sp. z o.o. underwent a supervision audit by IMQ S.A., Representative Office in Poland aimed at Expanding the scope of operation of the Quality Management System to the Passenger Service Unit and the Conductor Crew Unit. The audit also involved assessment of operation of the Quality Management System in terms of its compliance with the Polish Standard PN-EN ISO 9001:2009. The audit resulted in award of a certificate issued by the Representative Office in Poland of IMQ S.A., an Italian certification unit. Certificate No. 9176.KOLE confirms that KM implemented a Quality Management System compliant with the ISO 9001:2008 standard for planning and performance of regional rail passenger transport.

In respect of safety management compliant with the Polish Rail Transport Act, KM implemented and maintains the **Safety Management System**. The Safety Management System obtained the required acceptance of the President of the Rail Transport Authority; decision No. TTN-0211-C-22/2010. The Safety Management System documentation was adopted for use by Resolution No. 617/Z/2010 of 28 December 2010 *on acceptance to adoption for use of the Safety Management System documentation, which includes: Safety Management System Manual and the required procedures and instructions.*



### **7.1.2. Occupational Health and Safety activities (OHS)**

In the year 2011 KM employing 2 388 registered 14 accidents, of which 13 were classified as light work related accidents; in accident investigations. No other, i.e. serious, mass or fatal, were registered. Also, no occupational diseases were registered.

In the year 2011 the staff of the OHS Team conducted 205 introductory training sessions for the newly hired. A total of 30 in-house training courses in occupational health and safety (periodic OHS training programme) were conducted, with total of 708 employees participating. These were addressed to: blue-collar workers; shunting mechanics and persons performing shunting operations; managers and administration and office workers. Total number of employees trained in OHS stood at 918.

### **7.2. Activity for improvement of security onboard trains and on railway use areas**

The issues of security of travel, safety of rolling stock and railway assets as a priority for "Koleje Mazowieckie - KM" sp. z o. o.. Since mid-2010 "Koleje Mazowieckie - KM" sp. z o.o. have been active in the structures of the Central Security Team dedicated to the railway use areas.

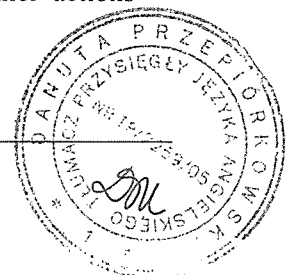
In 2011 KM continued its actions towards improving passenger security. The police and the railway security service (SOK) conducted operations and preventive actions on the most vulnerable routes, including, among others:

- employment for duration of 3 months of a physical security agency, with the tasks of protecting persons and property onboard KM trains; and enforcement of orderly conduct regulations;
- every instance of infringement of orderly conduct regulations of criminal nature notified to SOK and the police on emergency basis,
- meetings disciplining KM employees towards notification of the relevant enforcement agencies of all and any occurrences, which may reduce the security of passengers; the rules of such conduct were discussed at periodic guidance sessions;
- control rides for assessment of procedural compliance by train crews.

### **7.3. Activity for protection of the environment**

In the year 2011 „Koleje Mazowieckie - KM” sp. z o.o. continued its collaboration with:

- the company providing collection of spent batteries and small-sized accumulators, which provided free-of-charge waste collection, recovery or recycling;
- providers of solid and effluent waste management services responsible for further actions involving the transport, collection and disposal of municipal waste; and





- the company providing technological and technical supervision, technical maintenance and administration services on the sewage treatment plant located on site of the Rolling Stock Repair and Operation Unit in Tłuszcz, and which controlled concentrations of the treatment plant's discharges into a drainage ditches through laboratory tests.

Securing of industrial waste permits for the Rolling Stock Repair and Operation Units was an important aspect of that:

- 14 January 2011 KM secured industrial waste permit for the Warszawa Grochów and Warszawa Ochota Rolling Stock Repair and Operation Units; the decision was issued by the Regional Director for Environmental Protection for a period of 10 year, i.e. until 14 January 2021;
- 3 March 2011 KM secured industrial waste permit for the Sochaczew Rolling Stock Repair and Operation Unit; the decision was issued by Starosta Sochaczewski (municipality head) for a period of 10 year, i.e. until 1 March 2021;
- on 4 May 2011 KM secured industrial waste permit for the Tłuszcz Rolling Stock Repair and Operation Unit; the decision was issued by Starosta Wołomiński for a period of 10 years; until 31 March 2021.

The decisions provide the basis for organisation of industrial waste management in the Rolling Stock Repair and Operation Units. These specify: the scope and manner of technological process monitoring; the required emissions prevention and/or limiting actions; the list of waste materials authorised to be generated in the course of the year; and the manner of utilisation and storage of the produced waste.

#### **7.4. Collection of receivables for travel and transport of persons, goods and animals**

Matters of receivables collection are a direct consequence of issuance by train managers, conductors, ZW "Renoma" controllers and other persons authorised to check tickets on KM trains of payment notices on account of:

- 1) lack of appropriate transport document;
- 2) lack of a valid document certifying the entitlement to free or discounted travel;
- 3) failure to pay the charges for carriage along on a train of goods and/or animals, or violation of provisions of carriage thereof; and
- 4) stoppage of the train without a justified cause.

All the persons authorised to check tickets issued in the year 2011 total of **95 014** payment notices, or **15 500** more than in 2010 (**79 514**).



Receipts from payment notices collected in 2011 by KM and by external collection service companies amounted to **PLN 4 435 886.41** and increased by **22.6%** compared to the amount collected in 2010, which stood at **PLN 3 617 429.80**.

Costs incurred by the Collections Unit in 2011 reached **PLN 5 810 195.65**, while in 2010 these were **PLN 3 678 701.22**.

### **7.5 Passenger complaints, suggestions and claims**

The rules of handling passenger complaints, suggestions and claims in "Koleje Mazowieckie - KM" sp. z o.o. are specified in procedure No. P-8.1-1 "Handling complaints, suggestions and claims of customers" forming part of the Quality Management System meeting the requirements of the PN-EN ISO 9001:2009 standard. The procedure is compliant with effective regulations of law and is regularly updated.

The procedure is intended to ensure that the complaints, suggestions and claims submitted by customers be considered in a fair way by competent persons; that the causes be identified, analysed and addressed; and potential losses sustained by the customer be compensated for. The procedure ensures uniform response action leading to correction and analysis of any inconsistencies occurring in the customer service process.

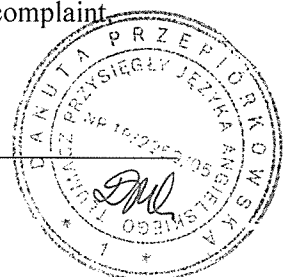
In the period of 1 January 2011 to 31 December 2011 "Koleje Mazowieckie - KM" sp. z o.o. received:

- 1 630 complaints and suggestions;
- 440 claims.

The complaints and suggestion related primarily to:

- maladjustment of the train timetable to the needs of passengers;
- irregularities in running of trains,
- irregularities in coordination of trains;
- irregularities in passenger service at ticket offices and onboard trains;
- irregularities in provision of information to passengers;
- improper technical condition, cleanliness and/or heating of rolling stock.

Over the same period "Koleje Mazowieckie - KM" sp. z o.o. received 440 complaints. It considered 351 complaints (214 with positive outcome). The complaints issued primarily from inconveniences in travel, incorrect servicing by the booking clerk (issued ticket inconsistent with the passenger's request) and issuance of blanket tickets with additional charges. 89 complaints could not be considered due to the passenger's failure to correct formal deficiencies in complaint.



In 2010 "Koleje Mazowieckie - KM" sp. z o.o. received 1 819 complaints and suggestions and 492 claims, which indicates that the total number of cases notified by the passengers in the year 2011 was by 10.5% lower than in 2010.

## 7.6. Strategic projects of the Parent Company

### 7.6.1. Rolling stock investments

In the year 2011 KM completed in asset terms two of its key projects co-financed from the EU budget. In the year 2009 these projects were included in the *Indicative List of Individual Key Projects for the Regional Operational Programme for Mazowieckie Province 2007-2013*:

Under the project entitled "*Procurement of 11 new double-cab electric locomotives for the operation of bi-directional passenger trains made up of double-decker carriages, with provision of service over a period of four years from the date of handover of each locomotive, and training of the buyer's staff*", KM procured 11 new locomotives.

Total project value: PLN 206 306 370.95

of which:

eligible costs PLN 158 937 537.75

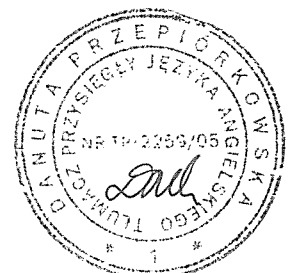
estimated amount of co-financing from the European

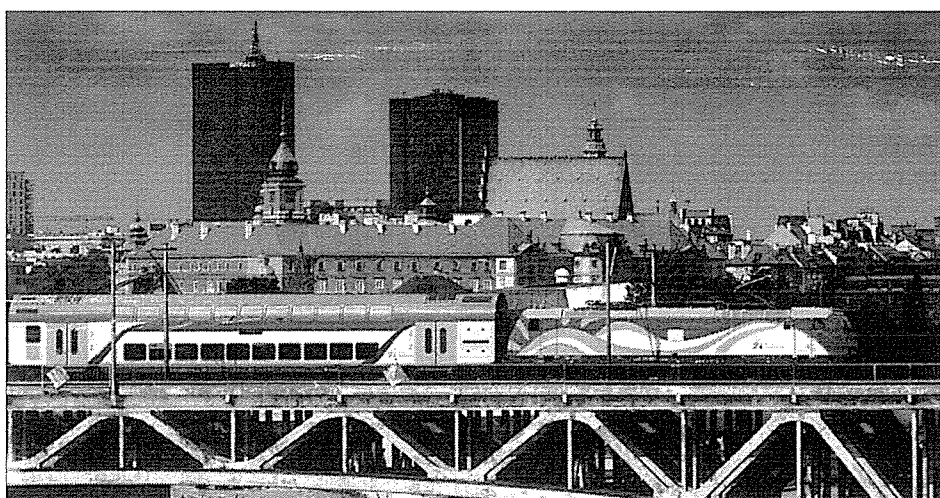
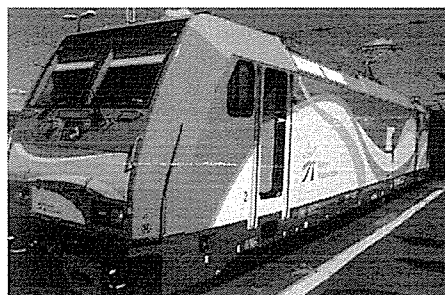
Regional Development Fund and the State Budget (taking into account

all possible deductions for, e.g., penalties or adjustments) PLN 79 468 768.87

Procurement value of the 11 locomotives specified in the chosen tender offer was EUR 40 520 000.00, or at the EUR/PLN rate of exchange of PLN 4.1862 to EUR 1.00 prevailing on the bid opening day: net PLN 169 624 824.00. Value of the project co-financing coming from the EU and the State Budget will be equivalent to EUR 20 260 000.00.

In the year 2011 KM submitted 3 applications for payment under the project. At their approval by the Mazovian Unit of EU Programmes Implementation, KM received reimbursement of incurred expenditures in an amount of PLN **40 419 788.07**. In terms of assets the project has been fully implemented while its final financial settlement will take place in the year 2012, ac completion of audits by the Mazovian Unit of EU Programmes Implementation and the Fiscal Audit Office. The final tranche of the grant is expected to amount to approximately PLN 5 393 879.20.





Under the project entitled “*Modernisation of electric mobile units*”, KM has continued the process of modernising (refurbishing) the electric mobile units (EMUs) it uses. The project includes EMU modernisations carried out in the years 2007-2011. In total, in the years 2007–2011 about 150 EMUs were modernised. Finally, by 31 December 2011 a total of 186 EMUs were modernised (to a varied extent), with the project performance indicator fully met.

Total project value:

PLN 207 206 716.00

of which:

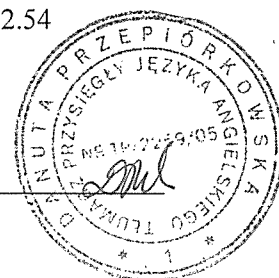
eligible costs

PLN 166 136 045.08

maximum amount of co-financing from the European

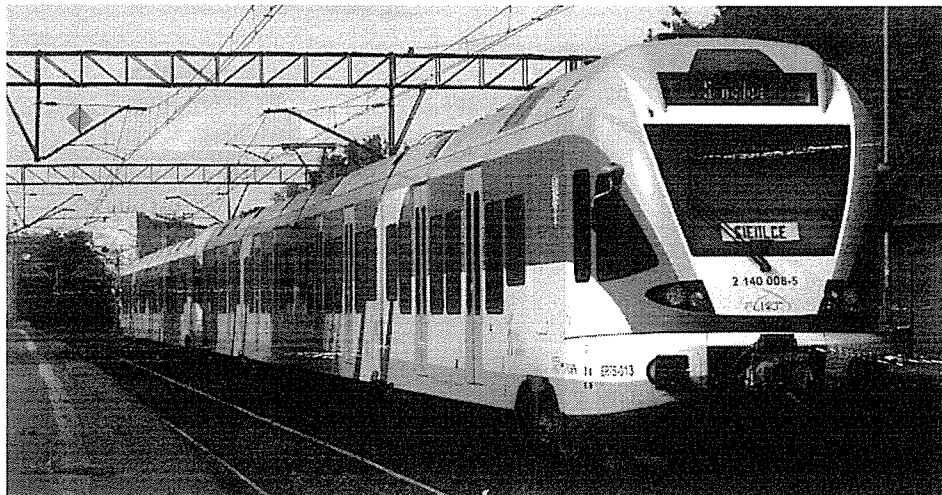
Regional Development Fund and the State Budget

PLN 83 068 022.54



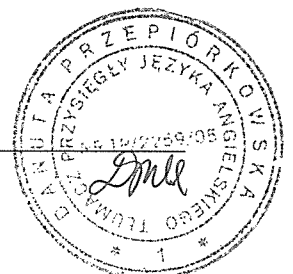
Rolling stock undergoes the mentioned modernisations in the course of periodic repairs: the major repairs and the revision service repairs. The modernised rolling stock gains additional operational capability extending its useful life for up to 15 years. In response to applications for payment in the years 2010–2011 KM received combined reimbursement of expenses in an amount of PLN 74 082 509.67. Pending settlement is the final tranche of the grant in a PLN amount of approximately PLN 8 985 512.87. Final financial settlement of the project will take place at adoption of the final decision in respect of the reservations submitted by the Company to the financial adjustments introduced by the Mazovian Unit of EU Programmes Implementation.

On 29 December 2010 an agreement was signed for the purchase from the Mazowieckie Province of 10 used ER75 electric mobile units (Flirt Polska) previously leased by KM from the owner. The transaction was valued at PLN 149 845 000.00. As a result, KM became the owner of four rolling stock units in December 2010 and six units in January 2011. The Flirt type vehicles have been operated by KM since 27 June 2008 and were procured by the Mazowieckie Province through a tender. The units were delivered over time, with the final EMU of that purchase transferred on 19 December 2008.



### Strategic projects in 2011

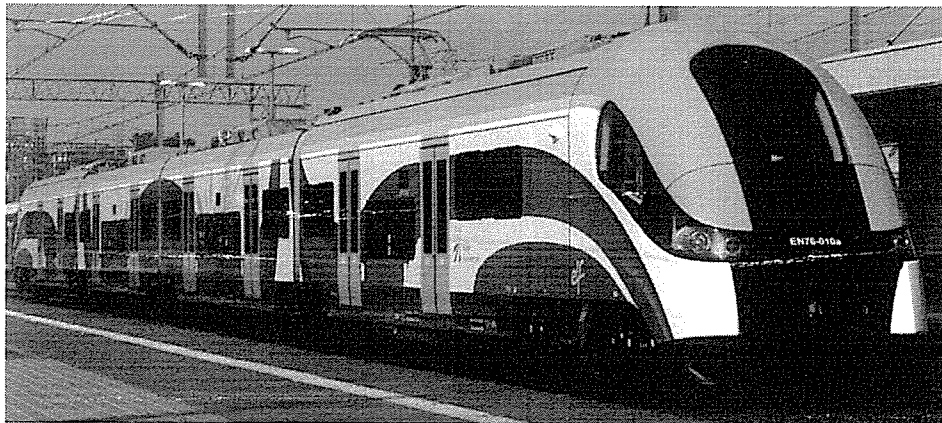
In August 2011 KM submitted a draft application for co-financing of project 7.3 – 10.2 under the Infrastructure and Environment Operational Programme entitled “*Procurement of rolling stock serving airports and the agglomeration service within the E-65 line corridor and the Warsaw agglomeration*”. Value of that project stands at PLN 381 693 452.40. By the end of the year 2011, the manufacturer of the 16 electric mobile units, being a Consortium of Companies including Pojazdy Szynowe PESA Bydgoszcz S.A. Holding and ZNTK “Mińsk Mazowiecki” S.A.



completed the agreement executed on 20 January 2011 for delivery of vehicles to "Koleje Mazowieckie - KM" sp. z o.o.

KM financed the delivery of those trains out of its own funds due to the fact that the procedure of approval of the feasibility study results and the project co-financing application is pending completion. The protracted procedure of agreeing the documentation required in filing the application for project co-financing resulted, among others, from the lengthy train timetable agreement procedure for the trains of KM and SKM Warsaw serving the Warsaw F.Chopin airport, and the need to provide passenger service of appropriate frequency to the users of the Modlin airport.

The necessity of coordinating the KM project with the currently implemented project of modernisation of a railway siding for the Modlin air terminal and construction of a rail station near the Modlin terminal led to temporary stoppage of work on development of the feasibility study results and the project co-financing application. KM expects to secure co-financing for procurement of 16 EMUs by the end of the 1st half of 2012. Co-financing will not exceed the amount of PLN 182 992 854.20.



#### **7.6.2. Park and Ride parking lots system**

Park and Ride parking lots are being established by "Koleje Mazowieckie - KM" sp. z o.o. on the basis of an investment substitution agreement executed with the Local Government of the Mazowieckie Province.

By the end of the year 2010 KM built and put into operation five parking lots located in the following municipalities: Celestynów, Żyrardów, Siedlce, Brwinów, Ożarów Mazowiecki.

In the year 2011 KM completed construction and commissioned a parking lot in Teresin Niepokalanów. Parking lot construction projects also continued in the year 2011 in the municipalities of Radom and Mińsk Mazowiecki, with their operational launches taking place in January 2012.



## 8. Parent Company's HR and remuneration policy

### 8.1. HR policy

In the year 2011 KM continued to pursue a human resources management policy whereby the qualitative employment structure was to be adjusted to the Company's needs; continuing its staff training and career development projects; and the performance assessment systems for employees.

These key HR policy objectives were being achieved through:

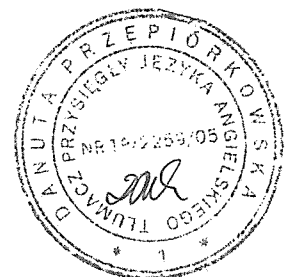
- increasing work productivity through a more efficient use of the available labour resources;
- implementation of IT systems supporting HR management;
- maintaining high work discipline through stepping up of work standards;
- training of staff in modern customer service, including secondment of employees to specialist courses focusing on corporate image building through delivery of customer satisfaction; and
- upgrading qualifications of the staff through rational training policy, which enables the employees to improve their professional qualifications.

### 8.2. Employment

Total employment in KM, as at 31 December 2011, stood at **2 611**, which means that it increased by **25** in comparison to the status as at 31 December 2010. This employment increase was driven by: railway operation safety regulations, increased service of commercial routes, and takeover by KM employees of the service on the push-pull trains, as of 1 September 2011. Until 31 August 2011 those trains were operated by CARGO train crews.

Employment increases occurred primarily in the traction engineer teams and the group of the conductor/ticket collector crews. 26 individuals were trained to work in the position of a conductor/ticket collector.

Analysis of the transport and operational work indicates labour productivity (per employee) improvement over the past three years.



**Table 1**

**Productivity of "Koleje Mazowieckie - KM" sp. z o.o. employees in the years 2009-2011  
(passenger-kilometres to employment)**

| Year | passenger-km  | employment (December) | Labour productivity<br>(million of passenger-km per<br>1 employee) |
|------|---------------|-----------------------|--|
| 2009 | 1 632 131 856 | 2560                  | 0.638  |
| 2010 | 1 818 107 072 | 2586                  | 0.703  |
| 2011 | 1 877 928 646 | 2601*                 | 0.722  |

Worth underscoring is the fact that the labour productivity ratio achieved by KM in 2009 was already above the respective average for the European Union, whereas the ratio achieved by KM in the years 2010–2011 was close to that of the EU member states with the highest registered labour productivity ratios in the transport sector (e.g. Germany: statistical data published by the World Bank in its *Report No. 59715-PL: Transport Policy Document. February 2011*).

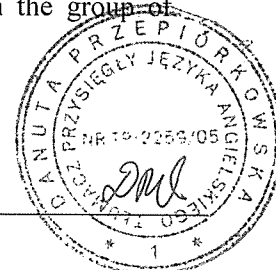
### 8.3. Employment structure, qualitative analysis

In the year 2011, KM had four distinct employee groups:

- **white collar**, i.e. administration and office staff;
- **core activity**, which includes:
  - group of conductor crews;
  - group of traction engineer crews;
  - ticket office and information staff;
  - rolling stock operation and maintenance crews;
  - train dispatchers, shunting and manoeuvring mechanics;
- **additional services**, i.e. other employees of: the controllers and instructors group; the operations and technical service; the storage facilities; the equipment service and maintenance; and of the administrative procurement service;
- **Maintenance Services Department**, the rolling stock cleaning crews.

The staff of the groups involved in the Company's core activity have the highest share in total employment (75.95%). The white collar job positions represent only 9.53% of total employment.

Compared to the year 2010, a noticeable shift in the employment structure has occurred, with the number of employees with university degrees increasing to 249. Employment in the group of workers with primary education declined by 36.





The hiring of young individuals with limited work experience contributed to improvement of the employment structure in terms of work seniority. The number of employees with seniority exceeding 21 years declined with equivalent growth in the group of those with seniority of up to 20 years.

#### 8.4. Remuneration policy

KM spent a total of **PLN 118.9 million** on total payroll in the year 2011. It should be noted that 95.29% of the aforementioned amount is related to its core transport business, with the remaining 4.71% relates to non-transport activities and the launch of commercial trains.

The payroll fund in 2011 was primarily impacted by increase in employment by **25 individuals** compared to the year 2010. That growth was driven, among others, by: increased operational work on commercially operated routes, including the takeover, starting from 1 September 2011, of the servicing of push-pull trains by KM employees (until 31 August 2011 those trains were serviced by PKP CARGO); and by railway safety regulations.

In addition, growth in the year 2011 of the personal and non-personal remuneration of employees as compared to the year 2010 occurred, among others, due to:

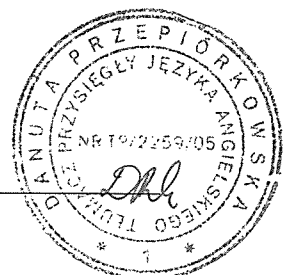
- An increase in the minimum wage in the country's economy by 5.24% starting from 1 January 2011;
- An increase in bonuses of conductor crew employees, in conjunction with a ticket price increase.

The average monthly personal salary per one employee in 2011 reached **PLN 3 632.74** and was higher versus the personal salary per employee in 2010 by **5.93%** or **PLN 203.24**.

#### 8.5. Training policy

The training policy of "Koleje Mazowieckie - KM" sp. z o.o. provides for continual improvement and upgrading of staff's professional qualifications.

KM allocated an amount of **PLN 1 378 140** for training of employees in the year 2011, including co-funding of their education and other HR activities (among others, description and pricing of job positions). The plan provided for training of 1 760 employees in 2011. Effectively, training was offered to a total of **2 343 individuals** (by 33% more than planned) while the cost of all the offered courses, together with co-funding of education and HR activities reached nearly **PLN 997 000**.



## 8.6. Cooperation with trade unions

A total of nine trade union organisations operated in KM in 2011; four of them had the status of representative trade union organisations.

As in previous years, the Management Board of KM collaborated with all trade union organisations on a partnership basis throughout 2011. This approach was reflected in numerous meetings held in order to exchange views between the parties.

The key matters discussed at the meetings with trade unions in the year 2011 related to:

- termination of collective bargaining process;
- termination of the Collective Labour Agreement and commencement of negotiations on a new one for KM;
- salary increases;
- organisation of work;
- social benefits for the employees.

Since agreements were signed, there were no continuing or suspended collective bargaining disputes in KM as at 31 December 2011. This places KM as an employer in very favourable light against the entire sector; and is a positive testimonial of its cooperation with social partners.

## 8.7. Diagnostics of preventive examinations

In the year 2011 a total of **1 163 employees** working in job positions directly involved in train traffic safety and operation were referred to occupational medicine related examination. The total cost of such examinations totalled **PLN 309 287**, a 10% increase versus 2010. Important factors contributing to this cost increase were: a 3.5% increase in the unit price of the examinations; and an increase in the number of employees referred to those examinations.



## 9. Financial Statements of the "Koleje Mazowieckie - KM" sp. z o.o. Group with financial analysis

### 9.1. Financial result of the "Koleje Mazowieckie - KM" sp. z o.o. Group

Table 2  
Consolidated Profit and Loss Account of the years 2010 and 2011

| Profit and Loss Account |   | Year 2010      | Year 2011      | Change in<br>value terms | % change<br>compared to<br>the year 2010 |
|-------------------------|---|----------------|----------------|--------------------------|--|
|                         |   | 1              | 2              | 3 (2-1)                  | 4 (3/1)                                  |
| A                       | Revenue from sales (net)                        | 527 946 963.69 | 581 587 527.61 | 53 640 563.92            | 10.16%                                   |
| B                       | Operating costs                                 | 526 093 213.64 | 550 301 068.51 | 24 207 854.87            | 4.60%                                    |
| C                       | Sales profit (loss) (A-B)                       | 1 853 750.05   | 31 286 459.10  | 29 432 709.05            | 1587.74%                                 |
| D                       | Other operating revenues                        | 14 480 905.19  | 19 663 410.61  | 5 182 505.42             | 35.79%                                   |
| E                       | Other operating costs                           | 8 262 225.89   | 5 392 964.36   | -2 869 261.53            | -34.73%                                  |
| F                       | Operating profit (loss) (C+D-E)                 | 8 072 429.35   | 45 556 905.35  | 37 484 476.00            | 464.35%                                  |
| G                       | Financial revenues                              | 3 031 245.66   | 6 536 546.75   | 3 505 301.09             | 115.64%                                  |
| H                       | Financial costs                                 | 2 811 803.93   | 32 536 557.43  | 29 724 753.50            | 1057.14%                                 |
| I                       | Profit (loss) on ordinary activities<br>(F+G-H) | 8 291 871.08   | 19 556 894.67  | 11 265 023.59            | 135.86%                                  |
| J                       | Extraordinary gains/losses                      | 0.00           | 0.00           | 0.00                     |  |
| K                       | Gross profit (loss)                             | 8 291 871.08   | 19 556 894.67  | 11 265 023.59            | 135.86%                                  |
| L                       | Income tax                                      | 1 511 807.00   | 5 075 811.00   | 3 564 004.00             | 235.74%                                  |
| M                       | Net profit (loss)                               | 6 780 064.08   | 14 481 083.67  | 7 701 019.59             | 113.58%                                  |

In the year 2011 the "Koleje Mazowieckie - KM" sp. z o.o. Group generated a net profit of PLN 14 481 083.67, which was by PLN 7 701 019.59 or 113.58% higher than net profit of the year 2010.

Revenue from sales (net) (line item A) rose by 10.16% compared to 2010 while operating costs (line item B) were by 4.60% higher. Sales profit (loss) (line item C) closed with profit in an amount of PLN 31 286 459.10 and was over PLN 29 million higher than in the year 2010.



The profit (loss) on ordinary activities (line item I) is positive, and amounts to PLN 19 556 894.67, and was equivalent to gross profit (line item K). The income tax (line item L) for the year 2011 totalled PLN 5 075 811.00 while the net profit (line item M) was PLN 14 481 083.67.

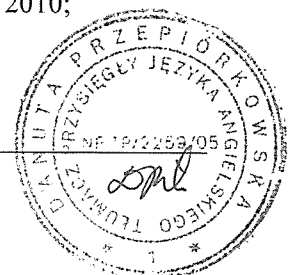
Total revenues and costs disclosed in the Consolidated Profit and Loss Account of the "Koleje Mazowieckie - KM" sp. z o.o. Group are by PLN 64 184 588.55 lower than the total revenue and costs disclosed in the accounts. The difference is the value of netting off of revenue and costs for the needs of the presentation of the profit and loss account. The following revenue and cost items were netted off:

- realised foreign exchange gains (losses) (reductions in financial revenue and financial costs) PLN 14 078 039.63
- computed foreign exchange gains (losses) on issued bonds at balance sheet date (reductions in net revenue from sales and sales equivalents and in financial costs) PLN 44 120 000.00
- provisioned contractual penalties (reductions in other operating revenue and other operating costs) PLN 5 986 548.92

### Revenues

Revenues from sales (net) for the year 2011 reached PLN 625 707 527.61, which represents an 18.52% increase versus 2010. The following factors were the main contributors:

- revenues from sale of tickets and travel discount entitlements of PLN 257 282 346.00, which were by PLN 21 033 338.09 or 8.90% higher than the respective revenue item in 2010;
- compensation on account of provision of public transport service in 2011 in an amount of PLN 211 555 721.70, which was by PLN 17 720 530.71 or 9.14% higher than the respective item in 2010;
- compensation on account of coverage of the balance sheet disclosed cost of foreign exchange gains (losses) on the issued bonds in an amount of PLN 44 120 000.00; this item did not occur in the year 2010;
- specific-purpose subsidy (compensation of lost revenues) for acceptance of statutory entitlements to reduced fares received from the Polish Ministry of Transport, Construction and Maritime Economy in the amount of PLN 28 289 874.06, which was by PLN 3 889 717.06 or 15.94% higher than the respective item in 2010;
- revenue from sale of KM tickets by other companies on service basis of PLN 35 194 312.50, which was by PLN 1 861 544.47 or 5.58% higher than the same revenue item in 2010;



- revenue from sale of tickets of other companies through the KM ticket offices of PLN 27 007 542.85, which was by PLN 2 739 879.95 or 11.29% higher than the same revenue item in 2010;
- revenue from sale of transport services to ZTM (line S-9) of PLN 13 899 178.82, which was by PLN 4 902 883.91 or 54.50% higher than the same revenue item in 2010.

Other operating revenues for the year 2011 amounted to PLN 25 649 959.63 and included, among others, penalties and damages received (PLN 14 501 649.79) and revenues on account of received EU grants (PLN 5 381 242.79).

Financial revenues of the "Koleje Mazowieckie - KM" sp. z o.o. Group amounted to PLN 20 614 586.38, with its main item being exchange rate gains (PLN 14 078 039.63).

### Costs

Operating costs in the year 2011 amounted to PLN 550 301 068.51 and were by PLN 24 207 854.87 or 4.60% higher than in 2010.

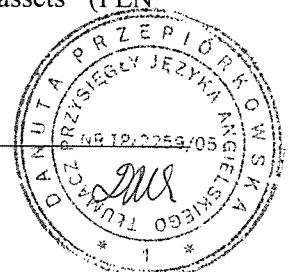
The highest growth in operating costs occurred in the following cost items:

- depreciation – it rose by PLN 18 636 157.48 or 107.68%, which resulted from the increased value of KM's assets, and primarily on account of inclusion of the rolling stock transferred as an in-kind contribution by the Mazowieckie Province in the register of fixed assets, and on account of procurement of 10 ER75 EMUs, 16 EN76 EMUs and 11 EU47 locomotives;
- railway infrastructure access – it rose by PLN 4 091 265.95 or 3.96%, which resulted from the increased operational work and increased railway infrastructure access charges;
- remunerations – they rose by PLN 3 616 405.96 or 3.18%, as such growth in this cost item is linked with expansion of KM, allowing it to retain the present labour productivity, and ensuring compliance with safety requirements and customer service standards which are contractually binding on KM.

The greatest declines in costs in 2011 compared to 2010 occurred in the following cost items:

- usage of traction power – declined by PLN 14 132 954.21 or 15.41%, which resulted from introduction of power meters to vehicles and settlement based on meter readings;
- leases – declined by PLN 11 097 888.05 or 34.23%, which primarily resulted from cessation of lease of certain locomotives from PKP CARGO and the takeover of push-pull and ER75 EMUs from the Mazowieckie Province.

Other operating costs for the year 2011 amounted to PLN 11 379 513.28 and were by PLN 3 117 287.39 or 37.73% higher than in the year 2010. Other major operating costs included court and collection costs (PLN 1 203 885.05) and revaluation of non-financial assets (PLN 7 780 844.97).



Financial costs in 2011 amounted to PLN 90 734 597.06 and were by PLN 87 901 143.40 higher than the respective cost item in 2010.

## 9.2. Assets and sources of their financing (liabilities) of the "Koleje Mazowieckie - KM" sp. z o.o. Group

The balance sheet total, as at 31 December 2011, amounted to PLN 1 454 503 755.42 and was by PLN 630 458 341.69 (or 76,51%) higher than in 2010.

**Table 3**

### "Koleje Mazowieckie - KM" sp. z o.o. Group's Balance Sheet total increase on the asset side

| No.          | Specification  | As at<br>31 December<br>2010 | Structure of<br>assets in<br>2010 | As at<br>31 December<br>2011 | Structure of<br>assets in<br>2011 | Change in<br>value terms<br>compared to<br>the year 2010 | % change<br>compared to<br>the year<br>2010 |
|--------------|----------------|------------------------------|-----------------------------------|------------------------------|-----------------------------------|--|---|
| 1            | 2              | 3                            | 4                                 | 5                            | 6                                 | 7 (5-3)  | 8 (7/3)                                     |
| A.           | Capital assets | 654 644 050.95               | 79.44%                            | 1 231 969 573.69             | 84.70%                            | 577 325 522.74   | 88.19%                                      |
| B.           | Current assets | 169 401 362.78               | 20.56%                            | 222 534 181.73               | 15.30%                            | 53 132 818.95  | 31.37%                                      |
| <b>Total</b> |                | <b>824 045 413.73</b>        | <b>100.00%</b>                    | <b>1 454 503 755.42</b>      | <b>100.00%</b>                    | <b>630 458 341.69</b>                                    | <b>76.51%</b>                               |

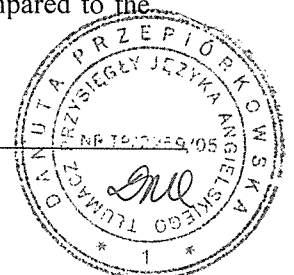
**Table 4**

### "Koleje Mazowieckie - KM" sp. z o.o. Group's Balance Sheet total increase on the liabilities side

| No.          | Specification  | As at<br>31 December<br>2010 | Structure of<br>liabilities<br>in 2010 | As at<br>31 December<br>2011 | Structure of<br>liabilities<br>in 2011 | Change in<br>value terms<br>compared to<br>the year 2010 | % change<br>compared to<br>the year 2010 |
|--------------|--|------------------------------|--|------------------------------|--|--|--|
| 1            | 2  | 3                            | 4                                      | 5                            | 6                                      | 7 (5-3)  | 8 (7/3)                                  |
| A.           | Shareholders' equity                                 | 493 097 805.44               | 59.84%                                 | 508 547 855.78               | 34.96%                                 | 15 450 050.34  | 3.13%                                    |
| B.           | Liabilities and<br>provisions against<br>liabilities | 330 947 608.29               | 40.16%                                 | 945 955 899.64               | 65.04%                                 | 615 008 291.35   | 185.83%                                  |
| <b>Total</b> |  | <b>824 045 413.73</b>        | <b>100.00%</b>                         | <b>1 454 503 755.42</b>      | <b>100.00%</b>                         | <b>630 458 341.69</b>                                    | <b>76.51%</b>                            |

The main sources of the increase in the Balance Sheet total were as follows:

- on the assets side – an increase in capital assets by PLN 577 325 522.74 or 88.19% and increase in current assets by PLN 53 132 818.95 or 31.37% compared to the year 2010:



- on the liabilities side – an increase in shareholders' equity of PLN 15 450 050.34 or 3.13% and an increase in liabilities and provisions against liabilities of PLN 615 008 291.35 or 185.83% compared to the year 2010.

The structure of the Balance Sheet changed as follows:

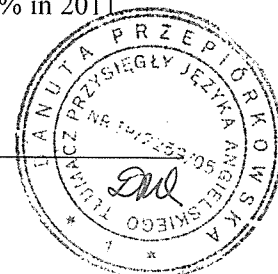
- capital assets as part of total assets increased by 5.26%, while current assets decreased by 5.26%;
- shareholders' equity position declined by 24.88% while outside capital as part of total liabilities of KM increased by 24.88%.

Tables 4 and 5 present the Balance Sheet of the "Koleje Mazowieckie - KM" sp. z o.o. Group, as at 31 December 2010 and as at 31 December 2011, its structure and changes in its respective items, by value and in percentage terms.

**Table 5**  
**Structure of assets**

| No.       | Specification                       | As at 31 December 2010 | Structure of assets in 2010 | As at 31 December 2011  | Structure of assets in 2011 | Change in value terms compared to the year 2010 | % change compared to the year 2010 |
|-----------|-------------------------------------|------------------------|-----------------------------|-------------------------|-----------------------------|---|------------------------------------|
| 1         | 2                                   | 3                      | 4                           | 5                       | 6                           | 7 (5-3)   | 8 (7/3)                            |
| <b>A.</b> | <b>Capital assets</b>               | <b>654 644 050.95</b>  | <b>79.44%</b>               | <b>1 231 969 573.69</b> | <b>84.70%</b>               | <b>577 325 522.74</b>                           | <b>88.19%</b>                      |
| I.        | Intangible assets                   | 298 792.36             | 0.04%                       | 210 997.49              | 0.01%                       | -87 794.87                                      | -29.38%                            |
| II.       | Tangible assets                     | 631 555 922.43         | 76.64%                      | 1 184 526 064.84        | 81.44%                      | 552 970 142.41                                  | 87.56%                             |
| III.      | Long-term receivables               | 0.00                   | 0.00%                       | 0.00                    | 0.00%                       | 0.00  |                                    |
| IV.       | Long-term investments               | 0.00                   | 0.00%                       | 0.00                    | 0.00%                       | 0.00  |                                    |
| V.        | Long-term prepayments and accruals  | 22 789 336.16          | 2.77%                       | 47 232 511.36           | 3.25%                       | 24 443 175.20                                   | 107.26%                            |
| <b>B.</b> | <b>Current assets</b>               | <b>169 401 362.78</b>  | <b>20.56%</b>               | <b>222 534 181.73</b>   | <b>15.30%</b>               | <b>53 132 818.95</b>                            | <b>31.37%</b>                      |
| I.        | Inventories                         | 6 536 131.66           | 0.79%                       | 10 093 930.31           | 0.69%                       | 3 557 798.65                                    | 54.43%                             |
| II.       | Short-term receivables              | 43 823 928.64          | 5.32%                       | 97 871 690.95           | 6.73%                       | 54 047 762.31                                   | 123.33%                            |
| III.      | Short-term investments              | 53 511 260.02          | 6.49%                       | 85 025 225.46           | 5.85%                       | 31 513 965.44                                   | 58.89%                             |
| IV.       | Short-term prepayments and accruals | 65 530 042.46          | 7.95%                       | 29 543 335.01           | 2.03%                       | -35 986 707.45                                  | -54.92%                            |
|           | <b>Total assets</b>                 | <b>824 045 413.73</b>  | <b>100.00%</b>              | <b>1 454 503 755.42</b> | <b>100.00%</b>              | <b>630 458 341.69</b>                           | <b>76.51%</b>                      |

The share of capital assets in total assets rose from 79.44% in 2010 to 84.70% in 2011, which meant concurrent decline of current assets in total assets from 20.56% in 2010 to 15.30% in 2011.



Changes in capital assets occurred mainly in tangible assets: their share in total assets rose from 76.64% in 2010 to 81.44% in 2011. There was a substantial increase in the tangible part of capital assets in 2011, primarily as a result of procurement of rolling stock, i.e.:

- 11 EN47 locomotives (Traxx) valued at PLN 142 541 592.30
- 16 EN76 (Elf) valued at PLN 316 111 612.77
- 6 ER75 (Flirt Polska) from the Mazowieckie Province at a net amount of PLN 90 290 000.00

and performance of the necessary rolling stock modernisations and major repairs.

Changes in long-term prepayments and accruals compared to the year 2010 primarily resulted from an increase in the balance of deferred income tax assets (by PLN 14 051 151.00). Long-term prepayments and accruals also increased on account to repairs and painting of EMUs and other rolling stock related costs (by PLN 12 473 917.17) while the refurbishment of buildings and plant line declined in value (by PLN 2 081 892.97).

The greatest change in current assets occurred in: short-term receivables as their share total assets rose from 5.32% in 2010 to 6.73% in 2011; and in short-term prepayments and accruals as their share total assets shrank from 7.95% in 2010 to 2.03% in 2011. The share of short-term investments in total assets came down from 6.49% in 2010 to 5.85% in 2011.

Short-term receivables stood at PLN 97 871 690.95 rising by PLN 54 047 762.31 or 123.33% compared to the status as at 31 December 2010. The main changes occurred in the following line items:

- receivables from related parties, their value as at balance sheet date was PLN 44 601 856.53; the line item including compensation (PLN 44 120 000.00) established through calculation of foreign exchange gains/losses as at the balance sheet date of 31 December 2011 (pursuant to Article 30 of the Polish Accounting Act of 29 September 1994) at valuation of the bonds issued by KM, with redemption in the year 2016, which receivables are classified as receivables with due dates in more than 12 months.
- receivables on account of tax, subsidies, customs duties, social and health insurance and other in an amount of PLN 43 428 686.20, with the largest item being VAT (input) to be refunded by the Tax Office in an amount of PLN 40 166 947.44.

As at 31 December 2011, overdue receivables amounted to PLN 43 435 658.36, with PLN 16 380 611.66 of those receivables claimed through the courts and warrant of execution. All overdue receivables are the subject of revaluation write-off.

Short-term prepayments and accruals, with the exception of VAT pending settlement in future periods, are expenditures already incurred, to be disclosed as current costs in the next financial





year. Short-term prepayments and accruals, as at the end of 2011, stood at PLN 29 543 335.01 and declined by PLN 35 986 707.45 or 54.92% compared to 2010. The main source of the change was the reduction in the balance of VAT (by PLN 41 335 838.83) for settlement in future periods.



**Table 6**  
**Structure of liabilities**

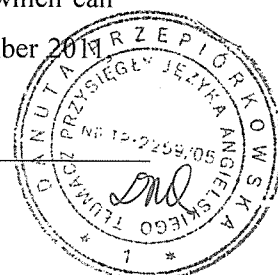
| No.                                 | Specification   | As at 31 December 2010 | Structure of liabilities in 2010 | As at 31 December 2011  | Structure of liabilities in 2011 | Change in value terms compared to the year 2010 | % change compared to the year 2010 |
|-------------------------------------|---|------------------------|----------------------------------|-------------------------|----------------------------------|---|------------------------------------|
| 1                                   | 2   | 3                      | 4                                | 5                       | 6                                | 7 (5-3)   | 8 (7/3)                            |
| <b>A.</b>                           | <b>Shareholders' equity</b>                           | <b>493 097 805.44</b>  | <b>59.84%</b>                    | <b>508 547 855.78</b>   | <b>34.96%</b>                    | <b>15 450 050.34</b>                            | <b>3.13%</b>                       |
| I.                                  | Share capital   | 297 379 000.00         | 36.09%                           | 481 909 000.00          | 33.13%                           | 184 530 000.00                                  | 62.05%                             |
| II.                                 | Revaluation reserve                                   | -18 022.50             | 0.00%                            | 950 944.17              | 0.07%                            | 968 966.67                                      | -5376.43%                          |
| III.                                | Reserve capital                                       | 6 396 241.76           | 0.78%                            | 11 206 827.94           | 0.77%                            | 4 810 586.18                                    | 75.21%                             |
| IV.                                 | Profit (loss) from previous years                     | -1 969 477.90          | -0.24%                           | 0.00                    | 0.00%                            | 1 969 477.90                                    | -100.00%                           |
| V.                                  | Net profit (loss)                                     | 6 780 064.08           | 0.82%                            | 14 481 083.67           | 1.00%                            | 7 701 019.59                                    | 113.58%                            |
| VI.                                 | Share capital in registration                         | 184 530 000.00         | 22.39%                           | 0.00                    | 0.00%                            | -184 530 000.00                                 | -100.00%                           |
| <b>B.</b>                           | <b>Liabilities and provisions against liabilities</b> | <b>330 947 608.29</b>  | <b>40.16%</b>                    | <b>945 955 899.64</b>   | <b>65.04%</b>                    | <b>615 008 291.35</b>                           | <b>185.83%</b>                     |
| I.                                  | Provisions against liabilities                        | 54 746 894.75          | 6.64%                            | 78 635 503.12           | 5.41%                            | 23 888 608.37                                   | 43.63%                             |
| II.                                 | Long-term liabilities                                 | 57 714 999.43          | 7.00%                            | 488 442 917.85          | 33.58%                           | 430 727 918.42                                  | 746.30%                            |
| III.                                | Short-term liabilities                                | 136 447 400.32         | 16.56%                           | 236 827 760.88          | 16.28%                           | 100 380 360.56                                  | 73.57%                             |
| IV.                                 | Accruals  | 82 038 313.79          | 9.96%                            | 142 049 717.79          | 9.77%                            | 60 011 404.00                                   | 73.15%                             |
| <b>Total liabilities and equity</b> |   | <b>824 045 413.73</b>  | <b>100.00%</b>                   | <b>1 454 503 755.42</b> | <b>100.00%</b>                   | <b>630 458 341.69</b>                           | <b>76.51%</b>                      |

The structure of liabilities changed as follows:

- shareholders' equity declined as part of total liabilities and equity from 59.84% in 2010 to 34.96% in 2011, including share capital (comprised of share capital (item A.I) and share capital in registration (item A.V)), its share in total liabilities and equity declining from 58.48% in 2010 to 33.13% in 2011 as a result of a substantial increase in liabilities and provisions against liabilities in 2011.
- The share of liabilities and provisions against liabilities rose from 40.16% in 2010 to 65.04% in 2011, with long-term liabilities rising as part of total liabilities and equity from 7.00% to 33.58%.

Share capital, as at 31 December 2011, amounted to PLN 481 909 000.00 and its value did not change as compared to the year 2010. The increase of shareholders' equity by PLN 184 530 000.00 was registered on 13 January 2011.

Provisions against liabilities include liabilities with uncertain due date or amount and which can cause appropriation of assets in the future. Provisions against liabilities, as at 31 December 2011



stood at PLN 78 635 503.12, including long-term provision of PLN 33 770 247.00 and short-term provision of PLN 44 865 256.12. The main provision titles included provision for deferred income tax (amount as at balance sheet date of PLN 20 472 598.00) and provision for future employee benefits (PLN 41 791 689.12).

In the year 2011 long-term liabilities increased in a substantial way. The balance of long-term liabilities (PLN 488 442 917.87 5) included liabilities on account of:

- bonds issued in 2011 in an amount of EUR 100 million, with the bond issue earmarked in its entirety towards rolling stock procurement, modernisation and major repairs (PLN 435 277 852.35).
- loans from the Provincial Environmental Protection and Water Management Fund (WFOŚiGW) (PLN 746 768.00) for co-financing of EMU modernisations, within the framework of a project entitled "Reducing noise levels and iron compound pollution in the operated EN57 type electric mobile units – EMUs");
- leasing of fixed assets (PLN 8 790 192.26);
- procurement of 5 used EN-71 type EMUs paid for on hire-purchase (instalment) basis, with total repayment of the liability on account of procurement of the 5 EN-71 type EMUs taking place in 2020 (PLN 43 628 105.24).

Short-term liabilities, as at 31 December 2011, amounted to PLN 236 827 760.88 and rose by PLN 100 380 360.56 or 73.57% as compared to the balance as at the end of 2010. The main items here include liabilities on account of financial leasing and reverse factoring (PLN 63 301 623.89), investment liabilities (PLN 82 034 693.23) and liabilities on account of interest coupons accrued on the issued bonds (PLN 21 542 998.37).

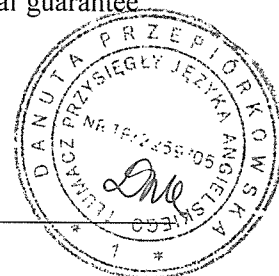
Repayment of investment liabilities and reverse factoring should occur in the 1st half of 2012 from the funds KM plans to receive under EU grants for the procurement of 16 EMUs (Elf).

As at 31 December 2011, there were no overdue liabilities.

Accruals, as at 31 December 2011, amounted to PLN 142 049 717.79 and were higher by PLN 60 011 404.00 or 73.15% than the balance as at the end of 2010. Then main line item there (PLN 138 219 029.63) was deferred income on account of received EU grants.

The Parent Company has the following contingent liabilities:

- arising from claims and litigations pertaining to business law and labour law-related matters provisioned for in the amount of PLN 1 816 008.25;
- bank guarantees of repayment of four loans granted by the WFOŚiGW, with a total guarantee value of PLN 3 487 998.00;



- blank bills of exchange as a security against performance of agreements co-financed from the European Regional Development Fund: PLN 83 068 022.54 and PLN 79 623 677.68;
- blank bills of exchange as a security against leasing obligations in the amount of PLN 22 933 641.16;
- blank bills of exchange as a security against obligations on account of loans, with balance as at 31 December 2011 of PLN 2 087 030.00; and
- power of attorney to use overdraft facility funds in the amount of PLN 45 000 000.00.

In addition, in connection with the EUR 100 million bond issue, the Parent Company granted to its Subsidiary an unconditional and irrevocable guarantee in an amount of EUR 150 million, which covers all the bond-related payments (principal and interest).

Assets of the Parent Company, as at 31 December 2011, included five electric traction units procured on instalment basis with registered pledge established on them, with the pledge value of PLN 53 435 000.00.

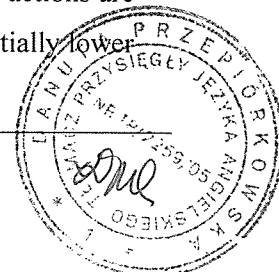
As at 31 December 2011, with the exception of the aforementioned registered pledge, there are no other security instruments, be it mortgages or tax liens, established on the Group's assets. No assets are under administration of any third party.

### 9.3. Risks related to financial instruments

The Koleje Mazowieckie Finance AB Subsidiary was established by the "Koleje Mazowieckie – KM" sp. z o.o. Parent Company for the purpose of issuing bonds. The bonds are secured by an unconditional and irrevocable guarantee granted by KM, the latter incurring all the major risks related to financial instruments.

#### General approach of "Koleje Mazowieckie- KM" sp. z o.o.

The operational strategy of the "Koleje Mazowieckie - KM" sp. z o.o. Parent Company in respect of financial instruments can be defined as the natural approach or the adaptation-and-adjustment approach. This means that KM monitors the current conditions prevailing in the foreign exchange and interest rate markets in terms of development of particular trends. Gathering of such observations enables KM to actively respond to changes in the markets with the aim of optimising the costs of financial transactions it executes. KM primarily monitors the exchange rate of EUR to PLN and the interest rates in the same currencies. In periods of historically high exchange rates of the aforementioned currencies, KM will undertake actions for the purpose of using the financing in those currencies, with the expectation of their decline in value to their historically average ranges, which enables achievement of additional benefits in these types of transactions. Similar actions are undertaken whenever interest rates of financing in currencies other than PLN be substantially lower



than in the case of financing in PLN. KM does not apply the rules of hedge accounting towards liabilities expressed in currencies other than PLN.

### **Interest rate risk**

Through monitoring the conditions prevailing in the interest rate market, KM can undertake actions of acquiring financing of least cost to the Company. Whenever material disparity between interest rates in PLN and EUR occurs, KM will decide to choose financing based on EUR interest rates. When market rates for financing in EUR approach their historically low levels, KM will seek to acquire financing in that currency based on fixed interest rate. Whenever disparity of interest rates in PLN and EUR is not high, KM will consider financing in PLN. In addition, occurrence of historically high interest rates will cause KM to choose variable interest, with the expectation of added benefits from decline in these interest rates.

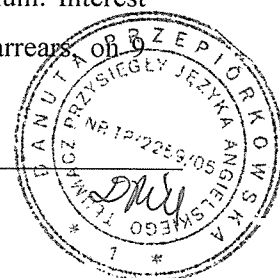
### **Foreign exchange risk**

KM does not have significant receipts in foreign exchange, which is why it has no need to hedge of its revenue through foreign exchange risk hedging transactions. The Company uses EUR financing whenever that is beneficial to it. In the event of the exchange rates of EUR to PLN reaching historically high levels, KM will choose financing in the currency the exchange rate of which stands above its average value range. Whenever the exchange rate approaches its average value range, KM will readily use PLN based financing, and – to the extent possible – close previously opened foreign exchange transactions. Consistent with that, under conditions of one of the currencies exchange rate reaching below its average value range, KM will choose financing in that currency. In addition, in the case of long-term obligation involving investment expenditures denominated in EUR, KM purchases currencies for interest payments in favourable periods, i.e. when the exchange rate approaches its average value range.

### **The situation in 2011**

#### Eurobonds

In the year 2011 "Koleje Mazowieckie- KM" sp. z o.o. and Koleje Mazowieckie Finance AB issued 5-year bonds of EUR 100 million. The issue proceeds were earmarked for rolling stock investments. Payment of the Companies' obligations on account of the issued bonds are secured on an unconditional and irrevocable guarantee granted by KM. The guarantee amount is limited to EUR 150 million and covers all the bond-related payments (principal and interest), which will total EUR 133.75 million. Bond interest is paid at a fixed interest rate of 6.75% per annum. Interest payments of EUR 6.75 million per year (total of EUR 33.75 million) are made in arrears.



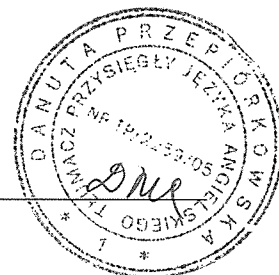
March each year. As at the balance sheet date, the obligation on account of the issued bonds stood at EUR 105 492 465.75, including accrued interest of EUR 5 492 465.75 as at 31 December 2011. By comparison, estimated cost of obtaining same financing in PLN would range between 9 and 10% per annum. That is why financing in EUR with financial costs expressed in EUR represents favourable terms for KM. At the same time, the transaction involves a foreign exchange risk, which, however, is being managed structurally. This is due to the fact that pursuant to the Framework Agreement 4/KM/NI.IT.I./09 on provision of public service in respect of mass public transport within the territory of the Mazowieckie Province, over the 15 consecutive years, i.e. in the period from 1 January 2010 to 31 December 2024, financial costs relating to financing of rolling stock investments are, on principle, settled through the compensation due from the Mazowieckie Province on account of provision by KM of mass public transport services. The aforementioned has been confirmed in an Agreement executed between the Mazowieckie Province and KM on 10 April 2012.

The liability and the interest on account of issued bonds are not hedged against foreign exchange risk through derivative instruments. The discussions held in the year 2011 with the aim of hedging the foreign exchange risk were unsuccessful, this in light of high costs KM would have had to incur; which would have inflated the compensation from the Mazowieckie Province.

There is, however, interest rate risk inherent in valuation of the bonds, as at the balance sheet date. The issued bonds bear interest at a fixed rate, as a result of which there arises a risk that the fair value of that liability may be lower in the event of any significant increase in interest rates on the market.

#### Reverse factoring

In the year 2011 KM also executed reverse factoring transactions, which provided it with short-term financing for capital expenditure payments relating to procurement of new rolling stock – as pre-financing of EU fund proceeds. The transactions were executed in EUR, at a floating rate dependent on the market rate for EUR financing plus a fixed margin. Total cost of those transactions in interest rate terms is decidedly lower than in the case of PLN financing, which follows from the significant difference between the relevant market rates (circa 0.7% for EUR and circa 4.5% for PLN) even when we assume we can achieve comparable corporate risk margin levels. Additionally, a favourable relation between the exchange rates at the time of execution of the transactions (EUR/PLN exchange rate was near its historical highs) provided the Company with favourable foreign exchange risk terms for the duration of these transactions.



#### 9.4. Cash Flow Statement of the "Koleje Mazowieckie - KM" sp. z o.o. Group

Change in the balance of cash funds in 2011 amounted to (+) PLN 31 513 965.44 and resulted from the following types of activities:

- operating activity + PLN 57 254 727.52
- investing activity - PLN 534 222 124.93
- financing activity + PLN 508 481 362.85.

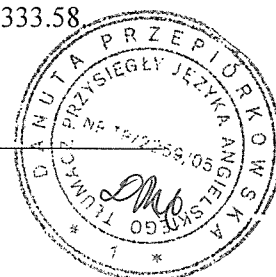
An amount of (+) **PLN 57 254 727.52** under operating cash flows consists of the following items:

- net profit in respect of 12 months of 2011 PLN 14 481 083.67
- depreciation in respect of 12 months of 2011 PLN 35 942 449.96
- foreign exchange loss PLN 47 732 966.67
- net profit adjustment pertaining to financing activity PLN 29 103 328.56  
arising from interest on loans and credit facilities (PLN 236 765.75), interest on account of leasing of fixed assets (PLN 905 253.23) and interest on bonds (PLN 27 961 309.58);
- loss on investing activity PLN 21 009.48
- increase in provisions against liabilities as compared to balance as at 31 December 2010 by PLN 23 888 608.37
- increase in inventories as compared to balance as at 31 December 2010 by PLN 3 557 798.65
- increase in receivables as compared to balance as at 31 December 2010 by PLN 54 047 762.31
- decrease in short-term liabilities, excluding loans and credit facilities disclosed in financing activity as compared to balance as at 31 December 2010 by PLN 40 287 118.18
- increase in accruals as compared to balance as at 31 December 2010 by PLN 3 977 959.95.

Investment cash flows amounted to (-) **PLN 534 222 124.93**.

This amount includes capital expenditures towards rolling stock procurement, modernisation and major repairs, and procurement of other fixed assets, including:

- procurement of 6 ER75 EMUs PLN 90 290 000.00
- procurement of 11 EU47 locomotives PLN 122 604 431.94
- procurement of 12 EN76 EMUs PLN 249 243 359.41
- other investments PLN 72 084 333.58



Financial cash flows were positive and amounted to (+) **PLN 508 481 362.85**, including:

|  |                    |
|--|--------------------|
| • receipts on account of bond issues   | PLN 553 940 000.00 |
| • financial receipts from EU funds acquired for modernisation of rolling stock and procurement of 11 locomotives | PLN 66 842 603.47  |
| ✓ EU grant for the procurement of 11 locomotives   | PLN 40 419 788.07  |
| ✓ EU grant for modernisation of rolling stock  | PLN 26 422 815.40  |
| • receipts on account of reverse factoring   | PLN 59 835 632.94  |
| • receipts on account of drawing on an overdraft facility  | PLN 10 118 087.08  |
| • redemption of bonds issued in January 2011   | PLN 159 024 000.00 |
| • outflows at repayment of loans and credit facilities   | PLN 8 014 344.40   |
| • payments under financial lease contracts   | PLN 3 100 103.91   |
| • payment interest loans and credit facilities, bonds and on fixed assets under lease                            | PLN 12 116 512.33. |

### 9.5. Settlement of the public service agreement for provision of regional passenger rail transport

“Koleje Mazowieckie - KM” sp. z o.o., i.e. the Parent Company, was established for the purpose of providing public service of regional railway passenger transport commissioned pursuant to an agreement for the provision of public service with regard to regional passenger rail transport in the territory of the Mazowieckie Province, signed by the Mazowieckie Province.

On 14 February 2011 the Mazowieckie Province and “Koleje Mazowieckie - KM” sp. z o.o. executed an agreement on the performance of public service obligation, being regional public railway passenger transport service in the territory of the Mazowieckie Province.

The agreement covered the period of 1 January to 31 December 2011. As per the annual settlement of the agreement, the compensation for provision of regional passenger rail service in the territory of the Mazowieckie Province in the year 2011 amounted to PLN 211 555 721.70.

Moreover, in connection with calculation of foreign exchange differences, as at the balance sheet date of 31 December 2011 (pursuant to Article 30 of the Polish Accounting Act of 29 September 1994), on account of valuation of issued bonds denominated in EUR, the compensation was increased to include the aforementioned foreign exchange differences in an amount of PLN 44 120 000.00. In consideration of the fact that the annually performed balance sheet date valuation of the bands does not constitute taxable revenue or tax-deductible cost, and does not involve any outflow or inflow of cash funds, an agreement was executed on 10 April 2012 whereby the





settlement of the compensation in respect of the foreign exchange differences arising from the issued bonds would take place in 2016, i.e. the year of redemption of the same bonds.

The compensation for the year 2011, excluding the settlement of the foreign exchange differences as at the balance sheet date, amounted to PLN 211 555 721.70 and was lower by PLN 2 944 278.30 than the one awarded/planned for the year 2011 under the Agreement:



|  |                         |
|--|-------------------------|
| compensation contributed by the Local Government of<br>the Mazowieckie Province in the year 2011 | PLN 214 500 000.00      |
| compensation consistent with the settlement  | PLN 211 555 721.70      |
| <hr/> compensation to be refunded in the year 2012   | <hr/> PLN 2 944 278.30. |

The compensation covered the deficit in running trains within the territory required under the Agreement plus a reasonable profit provided for the year 2011. Net profit resulting from the settlement of the Agreement amounted to PLN 516 417.91. Table 6 [*probably* 7] presents the settlement of the public service agreement for the provision of regional passenger rail transport.

The settlement and the result on transport and non-transport operations were assessed by the Statutory Auditor as compliant with the effective Accounting Policies, the Polish Public Rail Transport Act of 16 December 2010 and the Regulation (EC) No 1370/2007 of the European Parliament and of the Council of 23 October 2007 on public passenger transport services by rail and by road and repealing Council Regulations (EEC) Nos 1191/69 and 1107/70.

In 2011 "Koleje Mazowieckie - KM" sp. z o.o. performed a total of 14 945 671.710 train-km on a commercial basis within the territory covered by the Agreement. In comparison with the 15 104 163.359 train-km planned under the Agreement, KM did not perform 158 491.649 train-km (i.e. 1.05%). The non-fulfilment of the operational work assumed under the Agreement was beyond the control of the KM and resulted primarily from repair works carried out by "PKP Polskie Linie Kolejowe" S.A. on the rail lines where KM runs its trains.

The train punctuality coefficient in 2011 reached 95.55% and was by 0.55% higher than the minimum ratio set out in the Agreement.

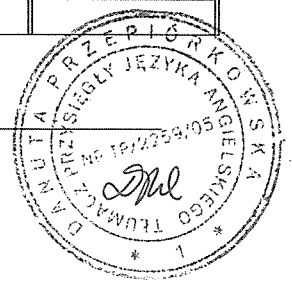
The final settlement will take place after acceptance of the Financial Statements by the Ordinary Shareholders' Meeting.



Table 7

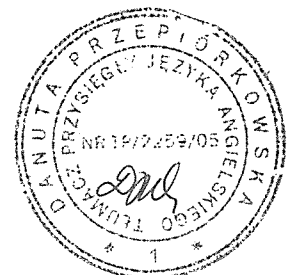
**Settlement of the public service agreement for provision of regional passenger rail transport  
in respect of the year 2011**

| Line      | Specification  | General activities    | Transport activities  | Transport activities within the territory covered by the Agreement | Other transport activities | Non-transport activities |
|-----------|--|-----------------------|-----------------------|--|----------------------------|--------------------------|
| 1         | 2  | 3                     | 4                     | 5  | 6                          | 7                        |
| <b>A.</b> | <b>Net revenue from sales and sales equivalent, of which:</b>                      | <b>581 796 405.66</b> | <b>512 711 830.47</b> | <b>496 619 048.40</b>  | <b>16 092 782.07</b>       | <b>69 084 575.19</b>     |
| I.        | Net revenue from the sale of finished products                                     | 579 790 323.99        | 512 711 830.47        | 496 619 048.40   | 16 092 782.07              | 67 078 493.52            |
| II.       | Change in finished products (increase – positive value, decrease – negative value) |                       |                       |  |                            |                          |
| III.      | Cost of producing goods for the entity's own needs                                 |                       |                       |  |                            |                          |
| IV.       | Net revenue from the sale of goods and materials                                   | 2 006 081.67          | 0.00                  | 0.00   | 0.00                       | 2 006 081.67             |
| <b>B.</b> | <b>Operating costs</b>   | <b>550 360 783.16</b> | <b>481 502 964.95</b> | <b>469 973 781.54</b>  | <b>11 529 183.41</b>       | <b>68 857 818.21</b>     |
| I.        | Depreciation   | 35 942 449.96         | 35 932 115.63         | 35 442 443.39  | 489 672.24                 | 10 334.33                |
| II.       | Consumption of materials and energy  | 96 326 450.34         | 96 216 382.45         | 93 348 101.47  | 2 868 280.98               | 110 067.89               |
| III.      | Third party services   | 248 257 854.83        | 185 274 140.19        | 179 880 581.85   | 5 393 558.34               | 62 983 714.64            |
| IV.       | Taxes and charges, including:<br>- excise duty tax                                 | 3 258 952.93          | 3 247 715.82          | 3 198 820.46   | 48 895.36                  | 11 237.11                |
| V.        | Remunerations  | 117 485 552.48        | 113 937 571.04        | 111 958 189.82   | 1 979 381.22               | 3 547 981.44             |
| VI.       | Social insurance and other benefits  | 37 952 954.47         | 37 781 153.36         | 37 184 610.40  | 596 542.96                 | 171 801.11               |
| VII.      | Other costs by type  | 9 130 863.08          | 9 113 886.46          | 8 961 034.15   | 152 852.31                 | 16 976.62                |
| VIII.     | Cost of goods and materials sold   | 2 005 705.07          | 0.00                  | 0.00   | 0.00                       | 2 005 705.07             |
| <b>C.</b> | <b>Sales profit (loss) (A-B)</b>   | <b>31 435 622.50</b>  | <b>31 208 865.52</b>  | <b>26 645 266.86</b>   | <b>4 563 598.66</b>        | <b>226 756.98</b>        |
| <b>D.</b> | <b>Other operating revenues</b>  | <b>25 647 846.87</b>  | <b>10 960 844.06</b>  | <b>10 946 829.26</b>   | <b>14 014.80</b>           | <b>14 687 002.81</b>     |
| I.        | Profit on the sale of non-financial capital assets                                 | 5 071.00              | 0.00                  | 0.00   | 0.00                       | 5 071.00                 |
| II.       | Subsidies  | 5 381 242.79          | 5 381 242.79          | 5 370 499.42   | 10 743.37                  | 0.00                     |
| III.      | Other operating revenues   | 20 261 533.08         | 5 579 601.27          | 5 576 329.84   | 3 271.43                   | 14 681 931.81            |
| <b>E.</b> | <b>Other operating costs</b>   | <b>11 379 513.28</b>  | <b>3 716 325.52</b>   | <b>3 716 325.52</b>  | <b>0.00</b>                | <b>7 663 187.76</b>      |
| I.        | Loss on the sale of non-financial capital assets                                   |                       |                       |  |                            |                          |
| II.       | Revaluation of non-financial assets  | 7 938 558.06          | 1 794 296.05          | 1 794 296.05   | 0.00                       | 6 144 262.01             |
| III.      | Other operating costs  | 3 440 955.22          | 1 922 029.47          | 1 922 029.47   | 0.00                       | 1 518 925.75             |
| <b>F.</b> | <b>Operating profit (loss) (C+D-E)</b>   | <b>45 703 956.09</b>  | <b>38 453 384.06</b>  | <b>33 875 770.60</b>   | <b>4 577 613.46</b>        | <b>7 250 572.03</b>      |
| <b>G.</b> | <b>Financial revenues</b>  | <b>20 614 586.38</b>  | <b>15 749 139.52</b>  | <b>15 740 030.01</b>   | <b>9 109.51</b>            | <b>4 865 446.86</b>      |
| I.        | Dividends and shares in profits, including:  |                       |                       |  |                            |                          |
| II.       | Interest   | 20 614 586.38         | 15 749 139.52         | 15 740 030.01  | 9 109.51                   | 4 865 446.86             |
| III.      | Profit from the sale of investments  |                       |                       |  |                            |                          |
| IV.       | Revaluation of investments   |                       |                       |  |                            |                          |
| V.        | Other  |                       |                       |  |                            |                          |
| <b>H.</b> | <b>Financial costs</b>   | <b>46 702 202.45</b>  | <b>45 941 143.22</b>  | <b>45 941 143.22</b>   | <b>0.00</b>                | <b>761 059.23</b>        |
| I.        | Interest   | 28 961 409.59         | 28 200 350.36         | 28 200 350.36  | 0.00                       | 761 059.23               |
| II.       | Loss on the sale of investments  |                       |                       |  |                            |                          |



| Line             | Specification   | General activities   | Transport activities | Transport activities within the territory covered by the Agreement | Other transport activities | Non-transport activities |
|------------------|---|----------------------|----------------------|--|----------------------------|--------------------------|
| 1                | 2   | 3                    | 4                    | 5  | 6                          | 7                        |
| III.             | Revaluation of investments  |                      |                      |  |                            |                          |
| IV.              | Other   | 17 740 792.86        | 17 740 792.86        | 17 740 792.86  | 0.00                       | 0.00                     |
| I.               | <b>Profit (loss) on ordinary activities (F+G-H)</b>   | <b>19 616 340.02</b> | <b>8 261 380.36</b>  | <b>3 674 657.39</b>  | <b>4 586 722.97</b>        | <b>11 354 959.66</b>     |
| J.               | <b>Extraordinary gains/losses (J.I. - J.II.)</b>  | <b>0.00</b>          | <b>0.00</b>          | <b>0.00</b>  | <b>0.00</b>                | <b>0.00</b>              |
| I.               | Extraordinary gains   |                      |                      |  |                            |                          |
| II.              | Extraordinary losses  |                      |                      |  |                            |                          |
| K.               | <b>Gross profit (loss) (I +/- J)</b>  | <b>19 616 340.02</b> | <b>8 261 380.36</b>  | <b>3 674 657.39</b>  | <b>4 586 722.97</b>        | <b>11 354 959.66</b>     |
| L.               | <b>Income tax</b>   | <b>5 075 811.00</b>  | <b>3 528 220.73</b>  | <b>3 158 239.48</b>  | <b>369 981.25</b>          | <b>1 547 590.27</b>      |
| M.               | <b>Other mandatory reductions of profit (increases of loss)</b>   |                      |                      |  |                            |                          |
| N.               | <b>Net profit (loss) (K-L-M)</b>  | <b>14 540 529.02</b> | <b>4 733 159.63</b>  | <b>516 417.91</b>  | <b>4 216 741.72</b>        | <b>9 807 369.39</b>      |
| O.               | Revenue on account of compensation covering the costs of foreign exchange losses at balance sheet date valuation of bonds valued at EUR 100 million | 44 120 000.00        | 44 120 000.00        | 44 120 000.00  | 0.00                       | 0.00                     |
| P.               | Financial costs on account of foreign exchange losses at balance sheet date valuation of bonds valued at EUR 100 million                            | 44 120 000.00        | 44 120 000.00        | 44 120 000.00  | 0.00                       | 0.00                     |
| Q.               | Deferred income tax on account of bond issue valuation  | 0.00                 | 0.00                 | 0.00   | 0.00                       | 0.00                     |
| K <sub>1</sub> . | <b>Gross profit (loss) (K + O - P)</b>  | <b>19 616 340.02</b> | <b>8 261 380.36</b>  | <b>3 674 657.39</b>  | <b>4 586 722.97</b>        | <b>11 354 959.66</b>     |
| L <sub>1</sub> . | <b>Income tax (L + Q)</b>   | <b>5 075 811.00</b>  | <b>3 528 220.73</b>  | <b>3 158 239.48</b>  | <b>369 981.25</b>          | <b>1 547 590.27</b>      |
| N <sub>1</sub> . | <b>Net profit (loss) (K<sub>1</sub> - L<sub>1</sub>)</b>  | <b>14 540 529.02</b> | <b>4 733 159.63</b>  | <b>516 417.91</b>  | <b>4 216 741.72</b>        | <b>9 807 369.39</b>      |

In pursuance of the agreement signed on 10 April 2012, regarding the settlement of foreign exchange gains/losses on the bonds issued by KM, the revenues on account of compensation covering the financial costs of foreign exchange losses at the balance sheet date and the value of costs on account of foreign exchange losses at the balance sheet date were disclosed separately in line items O and P in Table 6 [probably 7] – Settlement of the agreement.



## 9.6. Indicators of economic standing

Table 8

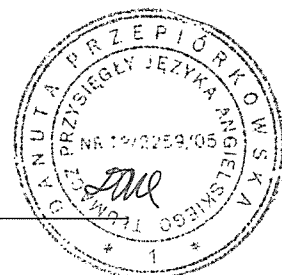
### Liquidity ratios of the "Koleje Mazowieckie - KM" sp. z o.o. Group in 2010 and 2011

| No. | Indicator name           | Description  | Indicator value |           | Trend    |
|-----|--------------------------|--|-----------------|-----------|----------|
|     |                          |  | Year 2010       | Year 2011 |          |
| 1   | Current ratio            | Current assets to short-term liabilities                     | 1.24            | 0.94      | downward |
| 2   | Quick ratio              | (Current assets minus inventories) to short-term liabilities | 1.19            | 0.90      | downward |
| 3   | Super quick ratio        | Cash funds to short-term liabilities                         | 0.39            | 0.36      | downward |
| 4   | Net stable funding ratio | Assets to short- and long-term liabilities                   | 4.24            | 2.01      | downward |

**1. Current ratio** describes the ability of an economic entity to repay all of its current liabilities through disposal of the current assets it holds. The ratio demonstrates the multiples by which the value of current assets exceeds the value of current short-term liabilities. The higher the value, the stronger the solvency of the entity. If the ratio remains in the recommended range of 1.2–2.0, there should be no difficulties with timely repayment of liabilities (including loans and interest). The ratio for the year 2011 stood at 0.94, which means that current assets cover 94% of current payables. The ratio declined primarily as a result of an increase in short-term liabilities, including those on account of investments, reverse factoring and bond interest accrued by 31 December 2011.

**2. Quick ratio** expresses the ability of an economic entity to repay its short-term liabilities with its liquid current assets, i.e. primarily its cash funds and short-term receivables. The ratio should remain at a value of at least 1. In the year 2011 Quick ratio stood at 0.90 and was by 0.29 lower than in the year 2010. The reasons behind the deterioration of that ratio are the same as those driving the decline of the current ratio.

**3. Super quick ratio** is used to understand short-term liquidity of an entity. It shows which part of current liabilities can be repaid immediately with the available cash. In practice, it is assumed that the ratio should not be less than 0.2. In the year 2011 the super quick ratio stood at 0.36 and was slightly lower than in the year 2010. This means that the Company is in a position to repay 36% of its current liabilities immediately with the cash held.



**4. Net stable funding ratio** reached 2.01 (the ratio should remain in the range of 1.8-2.0), which guarantees full repayment of liabilities. The reason behind the decline of that ratio versus 2010 (by 2.24) was an increase in liabilities, including in particular those on account of bonds issued in 2011 and earmarked towards rolling stock investments, and those on account of reverse factoring and capital expenditures, was the cause of decline of that ratio.

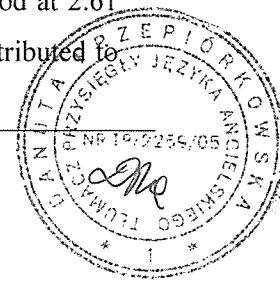
**Table 9**

**Selected performance and debt ratios of the "Koleje Mazowieckie - KM" sp. z o.o. Group in 2010 and 2011**

| No. | Indicator name                 | Description   | Indicator value |               | Trend    |
|-----|--------------------------------|---|-----------------|---------------|----------|
|     |                                |   | Year 2010       | Year 2011     |          |
| 1   | Rotation of total assets       | Total revenues to total assets                            | 0.66            | 0.42          | downward |
| 2   | Rotation of current assets     | Revenue from sales to current assets                      | 3.12            | 2.61          | downward |
| 3   | Gross debt ratio               | Short- and long-term liabilities to total assets          | 0.24            | 0.50          | upward   |
| 4   | Return on sales                | Net profit x 100 to total revenues                        | 1.24%           | 2.38%         | upward   |
| 5   | Return on assets (ROA)         | Net profit x 100 to total assets                          | 0.82%           | 1.00%         | upward   |
| 6   | Return on equity (ROE)         | Net profit x 100 to shareholders' equity                  | 1.37%           | 2.85%         | upward   |
| 7   | Leverage ratio                 | Return on equity minus return on assets                   | 0.55%           | 1.85%         | upward   |
| 8   | EBITDA                         | Net earnings before income tax, depreciation and interest | 26 773 501.62   | 82 256 973.19 | upward   |
| 9   | Equity to capital assets ratio | Shareholders' equity to capital assets                    | 0.75            | 0.41          | downward |

**1. Rotation of total assets** helps to assess the efficiency of asset utilisation in relation to actual sales. A value greater than 1.7 for this ratio is generally considered satisfactory. Its value is also business-specific. It is characteristically low in the case of highly capital-intensive companies, and high in labour-intensive companies. In the year 2011 the ratio stood at 0.42 and was by 0.24 lower than the same ratio in 2010. The ratio declined as asset growth was higher (primarily due to increase in capital assets and short-term receivables) than total revenue growth in 2011 as compared to the year 2010.

**2. Rotation of current assets** demonstrates how many times a year sales can enable replacement of assets. The higher the ratio, the better the financial standing of the economic entity, provided that the value is not a result of freezing of working capital. In the year 2011 the ratio stood at 2.61 and was by 0.51 lower than in the year 2010. The increase in current assets, which contributed to



reduction of this ratio, resulted from an increase in short-term receivables (primarily on account of compensation under the agreement for provision of public transport services).

**3. Gross debt ratio** provides the picture of the structure of financing for the entity's assets. It shows the part of financing of assets which is represented by outside capital. The higher the ratio, the greater the debt levels and the higher the financial risk. An excessively high gross debt ratio may raise concerns as to the entity's financial credibility. According to prevalent standards, this ratio should fall within the range of 0.57–0.67. In the year 2011 the gross debt ratio stood at 0.50 and was by 0.26 higher than in the year 2010.

**4. Return on sales** provides information on the profit margin achieved on sales. The ratio in 2011 stood at 2.39% and rose by 1.14% in comparison with the preceding year.

**5. Return on assets** reflects the relationship (as a percentage) between the net profit and total asset value. In the year 2011 return on assets stood at 1.00% or was 0.18% higher than the same ratio for 2010. This means that the yield the Company generated on each Polish zloty [PLN] worth of assets employed in its operations in 2011 was greater than in 2010.

**6. Return on equity** provides information on the relationship between net profit and value of shareholders' equity. In the year 2011 the ratio settled at around 2.85%, and was by 1.48% higher than in the preceding year. The increase is a positive one and shows a more effective utilisation of shareholders' equity than in 2010.

**7. Leverage ratio** reflects the effects an entity will achieve at utilisation of outside capital. A positive value of this ratio shows that the entity is benefiting from financing its activities with outside capital. In the year 2011 the leverage ratio stood at 1.85%, increasing by 1.30% versus 2010. In 2011 the Group utilised outside capital to finance its activities in a greater measure than in 2010.

**8. EBITDA** increased by 207.23% in 2011 in comparison with 2010. This indicates a substantial improvement in the Company's capacity to raise funds for its development. At the same time, financial credibility of the Company is reinforced vis-à-vis entities providing debt financing for its operations. This ratio is used by lenders to assessment the financial condition of economic entities.

**9. Equity to capital assets ratio** shows the extent to which assets of an enterprise are financed from shareholders' equity. The closer the value is to 1, the more stable the financial base of a company's operations. In the year 2011 that ratio stood at 0.41 in KM, declining by 0.34 in comparison to 2010. The lower ratio results from a greater increase in capital assets versus shareholders' equity.



## 9.7. Asset position assessment

In the year 2011 the "Koleje Mazowieckie - KM" sp. z o.o. Group achieved substantially higher net profit than in 2010, i.e. higher by PLN 7.7 million. Revenue structure did not undergo any major changes while the operating cost structure changed. In the year 2011 operating costs declined by over 4 percentage points as part of total costs while financial costs increased by over 5 percentage points. Operating costs shrank while costs applied towards financing of investments with outside capital increased.

Material expansion of the balance sheet total (of 76.51%) occurred in 2011. Procurement of capital assets (primarily rolling stock) impacted that increase to the greatest extent. In the year 2011 the Parent Company acquired cash funds from EU grants, which it subsequently allocated towards rolling stock investments while it raised the outstanding amounts required for implementation of its investments through issuance of bonds valued at EUR 100 million and the use of reverse factoring. Increase in liabilities and provisions against liabilities of over 185% as compared to the year 2010 led to a substantial reduction in application of shareholders' equity towards financing of tangible assets. It needs to be noted, however, that the increase in value of liabilities occurred primarily in long-term liabilities. The Group's financial condition is stable and there are no overdue payables. Worth noting is the fact that as KM uses EU grants and over PLN 138 million of the outside capital represent EU grants to be settled as deferred income.

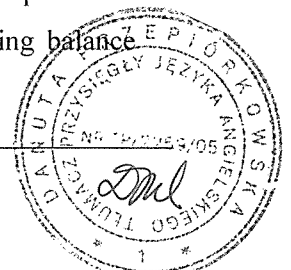
In simplified terms, Cash Flow, i.e. the cash funds that Company is able to allocate towards development and replacement investments, amounts to PLN 50 423 533.63 – in the year 2011. The Cash Flow value in 2011 was by PLN 26 337 177.07, or 109.34%, higher than in the preceding year; testifying of greater financial capacity of KM in the financing of investments. In the year 2011 the Company recorded

- increase in depreciation by PLN 18 636 157.48
- increase in net profit by PLN 7 701 019.59

in comparison to the year 2010.

Analysis of Cash Flows indicates positive result on operating activity and financing activity, and negative result on investing activity. What this indicates is that the Group has achieved positive inflows from its current operations, but the scale of its investments calls for the use of external financing sources. This is a feature of entities which are expanding their business, with a sufficiently good financial standing to qualify them for acquisition of new loans and credit facilities.

The ratios described in chapter 9.6 point to "Koleje Mazowieckie - KM" sp. z o.o. Group's stable financial condition. The drivers of growth of the aforementioned indicators (increasing balance





sheet total, including capital assets; increasing shareholders' equity, including net profit) reflect the Company's growth. The Group also finances its operations with outside capital, including an EU grant. Despite the increasing debt ratios, there are no overdue payables.

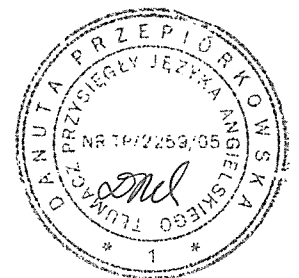
Taking all of the above into consideration, the Company's overall asset position and financial condition can be assessed as positive. Despite a decline in some ratios, the Company's asset basis increased, the entity is profitable and retains its financial liquidity.



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*[the final page of the scanned original document contains signatures and name stamps of the President  
of Management Board and three Members of the Management Board]*

I, the undersigned Danuta Przepiórkowska, a certified translator registered at the Polish Ministry of Justice, license no. TP/2259/05, have checked this translation from the Polish language versus its scanned original Polish version to the best of my ability within the available time frame and hereby certify that the foregoing translation conforms with the said document in the Polish language, as presented to me.

Please note: Readers are advised to bear in mind the differences in accounting systems and in financial/legal terminologies across various countries and languages. Translator's notes are given in square brackets.

Warsaw, 25 July 2012  
Entry No. 144/2012

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